[H.A.S.C. No. 99-28]

HEARING

ON

H.R. 3798

TO AUTHORIZE THE ESTABLISHMENT OF A MERCHANT SHIP REVOLVING FUND, AND FOR OTHER PURPOSES

H.R. 4136

TO AUTHORIZE THE ESTABLISHMENT OF A MILITARY AUXILIARY REVOLVING FUND WITHIN THE TREASURY OF THE UNITED STATES, AND FOR OTHER PURPOSES

H.R. 4146

TO AUTHORIZE THE ESTABLISHMENT OF A MILITARY AUXILIARY REVOLVING FUND WITHIN THE TREASURY OF THE UNITED STATES, AND FOR OTHER PURPOSES

BEFORE THE

SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS
SECOND SESSION

MARCH 4, 1986

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99TH CONGRESS
1ST SESSION

H. R. 3798

To authorize the establishment of a Merchant Ship Revolving Fund, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 20, 1985

Mr. MCKERNAN (for himself, Mr. FOGLIETTA, Mr. DYSON, Mrs. BENTLEY, Mr. COURTER, Mr. DONNELLY, Mr. DAVIS, Ms. MIKULSKI, Mr. HARTNETT, Mr. BATEMAN, and Mr. HUNTER) introduced the following bill; which was referred jointly to the Committees on Armed Services and Merchant Marine and Fisheries

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A BILL

To authorize the establishment of a Merchant Ship Revolving Fund, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Merchant Marine Act, 1936, as amended (46 App. U.S.C. 1141 et seq.), is amended by adding the following new title:

"TITLE XIV—BUILD AND CHARTER

"SEC. 1401. (a) There is established in the Treasury of the United States a fund, to be known as the 'Merchant Ship

Revolving Fund' (hereinafter referred to as the 'Fund'). The Fund shall consist of—

"(1) all moneys appropriated to the Fund;

"(2) all moneys received for the charter or sale of merchant vessels constructed under this section; and

"(3) any other moneys as may be made available for the purposes of the Fund.

"(b) The Fund shall be administered by the Secretary of the Navy (hereinafter referred to as the 'Secretary') and moneys in the Fund shall be used only for the construction in private shipyards in the United States of merchant vessels capable of serving as naval and military auxiliaries in time of war or national emergency. For the purposes of this section, 'construction in private shipyards in the United States' means—

"(1) all major components of the hull and superstructure of the vessel are fabricated in the United States;

"(2) the vessel is assembled entirely in the United States; and

"(3) at least 50 per centum of the cost of all machinery (including propulsion) and components which are not an integral part of the hull or superstructure of the vessel relates to items procured in the United States.

"(c) The Secretary shall award contracts for the construction of merchant vessels capable of serving as naval and military auxiliaries to private shipyards in accordance with the Federal Property and Administrative Services Act (41 U.S.C. 251 et seq.).

"(d) The Secretary shall charter to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the foreign commerce of the United States after due advertisement and upon competitive bids.

"(e) The Secretary may sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the foreign commerce of the United States, either to the charterer of any such vessel under an option clause in the charter or, if the vessel is not under charter, after due advertisement and upon competitive bids.

"(f) The price the Secretary shall charge for the purchase of a merchant vessel under subsection (e) shall be not less than the cost the Secretary determines would have been necessary to construct the vessel, not including national defense design features and equipment, outside the United States for delivery to the Secretary at the same time such vessel was delivered to the Secretary less a reasonable depreciation, as determined by the Secretary based on a twenty-five-year life of the vessel.

"(g) A citizen of the United States who charters or purchases from the Secretary any merchant vessel constructed under this section shall not be eligible to receive operating-differential subsidy under title VI for the operation of any such vessel.

"(h)(1) The Secretary shall not charter or sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the transpacific or transatlantic general dry cargo service, except if the Secretary finds that any such vessel is—

"(A) required to replace an existing vessel or vessels under an operating-differential subsidy contract between the Secretary of Transportation and such citizen entered into pursuant to title VI; or

"(B) necessary to replace an existing vessel or vessels twenty-five years of age or otherwise commercially obsolete.

"(2) The Secretary shall not charter or sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the coastwise or intercoastal trade, except if the Secretary finds that it is in the interest of national security to so charter or sell any such vessel.

"(i) There is authorized to be appropriated to the Fund such amounts as may be necessary to capitalize the Fund.".

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99TH CONGRESS
2D SESSION

H. R. 4136

To authorize the establishment of a Military Auxiliary Revolving Fund within the Treasury of the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 6, 1986

Mr. BIAGGI introduced the following bill; which was referred jointly to the Committees on Armed Services and Merchant Marine and Fisheries

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A BILL

To authorize the establishment of a Military Auxiliary Revolving Fund within the Treasury of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Merchant Marine Act, 1936 (46 App. U.S.C. 1101 et seq.), is amended by adding at the end thereof the following new title:

"TITLE XIV—BUILD AND CHARTER

"SEC. 1401. (a) There is established in the Treasury of the United States a fund, to be known as the Military Auxiliary Revolving Fund (hereinafter in this title referred to as the 'Fund'). The Fund shall consist of—

"(1) all moneys appropriated to the Fund;

"(2) all moneys received for the charter or sale of merchant vessels constructed under this section;

"(3) all moneys received from repayment of construction differential subsidies awarded under title V of this Act; and

"(4) any other moneys as may be made available for the purposes of the Fund.

"(b)(1) The Fund shall be administered by the Secretary of the Navy (hereinafter in this title referred to as the 'Secretary'), in consultation with the Administrator of the Maritime Administration, and moneys in the Fund shall be used only for the construction in private shipyards in the United States of merchant vessels capable of serving as naval and military auxiliaries in time of war or national emergency.

"(2) For the purposes of this subsection, 'construction in private shipyards in the United States' means that—

"(A) all major components of the hull and superstructure of the vessel are fabricated in the United States;

"(B) the vessel is assembled entirely in the United States; and

"(C) at least 50 per centum of the cost of all machinery (including propulsion) and components which are not an integral part of the hull or superstructure of the vessel relates to items procured in the United States.

"(c) No contract for the construction of a vessel under this Act shall be made by the Secretary with any private shipbuilder, except after due advertisement and upon sealed competitive bids.

SEC. 1402. (a) The Secretary may charter to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the foreign commerce of the United States after due advertisement and upon competitive bids.

"(b) The Secretary may sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the foreign commerce of the United States, either to the charterer of any such vessel under an option clause in the charter or, if the vessel is not under charter, after due advertisement and upon competitive bids.

"(c) The price the Secretary shall charge for the purchase of a merchant vessel under subsection (b) of this section shall be not less than the cost the Secretary determines would have been necessary to construct the vessel, not including national defense design features and equipment, outside the United States for delivery to the Secretary at the same time such vessel was delivered to the Secretary less a reasonable depreciation, as determined by the Secretary based on a twenty-five year life of the vessel. The Secretary of Transportation shall recompute such estimated foreign cost annually unless, in the opinion of the Secretary, there has been a significant change in shipbuilding market conditions. The Secretary shall publish notice of an intention to compute or recompute such estimated foreign cost and shall give interested persons, including shipyards and shipowners and associations thereof, an opportunity to file written statements. The Secretary's consideration shall include all such relevant statements, and each determination shall include or be accompanied by a concise explanation of the basis of the determination.

"SEC. 1403. A citizen of the United States who charters or purchases from the Secretary any merchant vessel constructed under this section shall not be eligible to receive an operating differential subsidy under title VI of this Act for the operation of any such vessel.

"SEC. 1404. (a) The Secretary shall not charter the Department of the Navy's vessels to private operators except upon competitive sealed bids submitted in strict compliance with all the terms and conditions of a public advertisement soliciting such bids. Each advertisement for bids to construct, charter, or sell the Department of the Navy's vessels shall state the number, type, and militarily useful characteristics of the vessels the Secretary requires, the length of time for which the charter will be given, and all other information the Secretary considers necessary for the information of prospective bidders.

"(b) The Secretary may, and shall announce in any advertisements for bids that the Secretary reserves the right to, reject any and all bids submitted. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"SEC. 1405. (a) The Secretary shall award the charter to the bidder proposing to pay the highest monthly charter hire, unless the Secretary shall reject such bid for the reasons set forth in subsection (b) of this section.

"(b) In the warding of charters, the Secretary shall take into consideration the charterer's financial resources and credit standing, practical experience in the operation of vessels, and any other factors that would be considered by a prudent businessman in entering into a transaction involving a large investment of capital. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"(c) The Secretary—

"(1) may reject the bid if the charter hire is considered too low to replenish adequately the Fund; or

"(2) may reject the bid if it is determined that the bidder appears to lack sufficient capital, credit, or experience to operate successfully the vessel over the period covered by the charter, and for any other reasons which would cause a prudent businessman to refrain from entering into a transaction involving a large investment of capital.

"(d) If the highest bid is rejected, the Secretary may award the charter to the next highest bidder, or may reject all bids and readvertise. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"(e) The Secretary may promulgate such regulations as are considered necessary for the purpose of implementing this section.

"SEC. 1406. (a) Every charter made by the Secretary pursuant to the provisions of this title shall provide that whenever, at the end of any calendar year subsequent to the execution of such charter, the cumulative net voyage profits (after payment of the charter hire reserved in the charter and payment of the charterer's fair and reasonable overhead expenses applicable to operation of the chartered vessels) exceeds 10 per centum per annum on the charter's capital necessarily employed in the business of such chartered vessels, the charterer shall pay over to the Secretary as additional charter hire one-half of such cumulative net voyage profit in excess of 10 per centum per annum, except that the cumulative net profit so accounted for shall not be included in any calculation of cumulative net profit in subsequent years.

"(b) Every charter shall contain a definition of the terms "net voyage profit" and "fair and reasonable overhead expenses," and "capital necessarily employed," as such terms are used in subsection (a) of this section, setting forth the formula for determining such profit and overhead expense and capital necessarily employed. Such definitions shall have been approved previously by the Secretary and published in the advertisement for bids for such charter.

"Sec. 1407. Every charterer of the Secretary of the Navy's vessels shall be required to deposit with the Secretary an undertaking with approved sureties as security for the faithful performance of all of the conditions of the charter, including indemnity against liens on the chartered vessels, in such amount as the Secretary shall require.

"Sec. 1408. Every charter shall provide that—

"(1) the charter shall carry on the chartered vessels, at its own expense, policies of insurance covering all marine and port risks, protection and indemnity risks, and all other hazards and liabilities, in such amounts, in such form, and in such insurance companies as the Secretary shall require and approve, adequate to cover all damages claimed against and losses sustained by the chartered vessels arising during the life of the charter, except that, in accordance with existing law, some or all of such insurance risks may be underwritten by the Secretary;

"(2) the charter shall at its own expense keep the chartered vessel in good state of repair and in efficient operating condition; and

"(3) whenever the President proclaims that the security of the national defense makes it advisable, or during any national emergency declared by proclamation of the President, the Secretary may terminate the charter without cost to the United States, upon such notice to the charterers as the President or Secretary shall determine.

The need for repairs under paragraph (2) of this section shall be based on the condition of the vessel immediately prior to the charter.

"SEC. 1409. (a) The Secretary shall not charter or sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the trans-Pacific or trans-Atlantic general dry cargo liner service for a ten-year period after construction of such vessel is completed, unless the Secretary finds that any such vessel is—

"(1) required to replace an existing vessel or vessels under an operating differential subsidy contract between the Secretary and such citizen entered into pursuant to title VI of this Act; or

"(2) necessary to replace an existing vessel or vessels twenty-five years of age or otherwise commercially obsolete.

"(b) The Secretary shall not charter or sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the coastwise or intercoastal trade, unless the Secretary of Defense directs a waiver of compliance with this section to the extent considered necessary in the interest of national defense, after affording notice and an opportunity to be heard to existing coastwise or intercoastal trade operators.

"SEC. 1410. The Administrator of the Maritime Administration shall conduct a study of the program authorized in this Act and other promotional programs within the jurisdiction of the Maritime Administration to determine their potential application to the coastwise trades regulated under the Merchant Marine Act of 1920 (46 U.S.C. 861 et seq.). The study shall include a review of the costs of vessels engaged in the coastwise trade, and projections for the future cost of such vessels, and the differential between such vessels and those built in foreign shipyards. The Administrator shall submit the study to Congress by January 1, 1987.

"SEC. 1411. There is authorized to be appropriated to the Fund such amounts as may be necessary to capitalize the Fund.

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99TH CONGRESS
2D SESSION

H. R. 4146

To authorize the establishment of a Military Auxiliary Revolving Fund within the Treasury of the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 6, 1986

Mr. JONES of North Carolina introduced the following bill; which was referred jointly to the Committees on Armed Services and Merchant Marine and Fisheries

---

A BILL

To authorize the establishment of a Military Auxiliary Revolving Fund within the Treasury of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Merchant Marine Act, 1936 (46 App. U.S.C. 1101 et seq.), is amended by adding at the end thereof the following new title:

"TITLE XIV—BUILD AND CHARTER

"SEC. 1401. (a) There is established in the Treasury of the United States a fund, to be known as the Military Auxiliary Revolving Fund (hereinafter in this title referred to as the 'Fund'). The Fund shall consist of—

"(1) all moneys appropriated to the Fund;

"(2) all moneys received for the charter or sale of merchant vessels constructed under this section;

"(3) all moneys received from repayment of construction differential subsidies awarded under title V of this Act; and

"(4) any other moneys as may be made available for the purposes of the Fund.

"(b)(1) The Fund shall be administered by the Secretary of the Navy (hereinafter in this title referred to as the 'Secretary'), in consultation with the Administrator of the Maritime Administration, and moneys in the Fund shall be used only for the construction in private shipyards in the United States of merchant vessels capable of serving as naval and military auxiliaries in time of war or national emergency.

"(2) For the purposes of this subsection, 'construction in private shipyards in the United States' means that—

"(A) all major components of the hull and superstructure of the vessel are fabricated in the United States;

"(B) the vessel is assembled entirely in the United States; and

"(C) at least 50 per centum of the cost of all machinery (including propulsion) and components which are not an integral part of the hull or superstructure of the vessel relates to items procured in the United States.

"(c) No contract for the construction of a vessel under this Act shall be made by the Secretary with any private shipbuilder, except after due advertisement and upon sealed competitive bids.

"Sec. 1402. (a) The Secretary may charter to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the foreign commerce of the United States after due advertisement and upon competitive bids.

"(b) The Secretary may sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the foreign commerce of the United States, either to the charterer of any such vessel under an option clause in the charter or, if the vessel is not under charter, after due advertisement and upon competitive bids.

"(c) The price the Secretary shall charge for the purchase of a merchant vessel under subsection (b) of this section shall be not less than the cost the Secretary determines would have been necessary to construct the vessel, not including national defense design features and equipment, outside the United States for delivery to the Secretary at the same time such vessel was delivered to the Secretary less a reasonable depreciation, as determined by the Secretary based on a twenty-five year life of the vessel. The Secretary of Transportation shall recompute such estimated foreign cost annually unless, in the opinion of the Secretary, there has been a significant change in shipbuilding market conditions. The Secretary shall publish notice of an intention to compute or recompute such estimated foreign cost and shall give interested persons, including shipyards and shipowners and associations thereof, an opportunity to file written statements. The Secretary's consideration shall include all such relevant statements, and each determination shall include or be accompanied by a concise explanation of the basis of the determination.

"SEC. 1403. A citizen of the United States who charters or purchases from the Secretary any merchant vessel constructed under this section shall not be eligible to receive an operating differential subsidy under title VI of this Act for the operation of any such vessel.

"SEC. 1404. (a) The Secretary shall not charter the Department of the Navy's vessels to private operators except upon competitive sealed bids submitted in strict compliance with all the terms and conditions of a public advertisement soliciting such bids. Each advertisement for bids to construct, charter, or sell the Department of the Navy's vessels shall state the number, type, and militarily useful characteristics of the vessels the Secretary requires, the length of time for which the charter will be given, and all other information the Secretary considers necessary for the information of prospective bidders.

"(b) The Secretary may, and shall announce in any advertisements for bids that the Secretary reserves the right to, reject any and all bids submitted. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"SEC. 1405. (a) The Secretary shall award the charter to the bidder proposing to pay the highest monthly charter hire, unless the Secretary shall reject such bid for the reasons set forth in subsection (b) of this section.

"(b) In the awarding of charters, the Secretary shall take into consideration the charterer's financial resources and credit standing, practical experience in the operation of vessels, and any other factors that would be considered by a prudent businessman in entering into a transaction involving a large investment of capital. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"(c) The Secretary—

"(1) may reject the bid if the charter hire is considered too low to replenish adequately the Fund; or

"(2) may reject the bid if it is determined that the bidder appears to lack sufficient capital, credit, or experience to operate successfully the vessel over the period covered by the charter, and for any other reasons which would cause a prudent businessman to refrain from entering into a transaction involving a large investment of capital.

"(d) If the highest bid is rejected, the Secretary may award the charter to the next highest bidder, or may reject all bids and readvertise. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"(e) The Secretary may promulgate such regulations as are considered necessary for the purpose of implementing this section.

"SEC. 1406. (a) Every charter made by the Secretary pursuant to the provisions of this title shall provide that whenever, at the end of any calendar year subsequent to the execution of such charter, the cumulative net voyage profits (after payment of the charter hire reserved in the charter and payment of the charterer's fair and reasonable overhead expenses applicable to operation of the chartered vessels) exceeds 10 per centum per annum on the charter's capital necessarily employed in the business of such chartered vessels, the charterer shall pay over to the Secretary as additional charter hire one-half of such cumulative net voyage profit in excess of 10 per centum per annum, except that the cumulative net profit so accounted for shall not be included in any calculation of cumulative net profit in subsequent years.

"(b) Every charter shall contain a definition of the terms 'net voyage profit' and 'fair and reasonable overhead expenses,' and 'capital necessarily employed,' as such terms are used in subsection (a) of this section, setting forth the formula for determining such profit and overhead expense and capital necessarily employed. Such definitions shall have been approved previously by the Secretary and published in the advertisement for bids for such charter.

"SEC. 1407. Every charterer of the Secretary of the Navy's vessels shall be required to deposit with the Secretary an undertaking with approved sureties as security for the faithful performance of all of the conditions of the charter, including indemnity against liens on the chartered vessels, in such amount as the Secretary shall require.

"SEC. 1408. Every charter shall provide that—

"(1) the charterer shall carry on the chartered vessels, at its own expense, policies of insurance covering all marine and port risks, protection and indemnity risks, and all other hazards and liabilities, in such amounts, in such form, and in such insurance companies as the Secretary shall require and approve, adequate to cover all damages claimed against and losses sustained by the chartered vessels arising during the life of the charter, except that, in accordance with existing law, some or all of such insurance risks may be underwritten by the Secretary;

"(2) the charterer shall at its own expense keep the chartered vessel in good state of repair and in efficient operating condition; and

"(3) whenever the President proclaims that the security of the national defense makes it advisable, or during any national emergency declared by proclamation of the President, the Secretary may terminate the charter without cost to the United States, upon such notice to the charterers as the President or Secretary shall determine.

The need for repairs under paragraph (2) of this section shall be based on the condition of the vessel immediately prior to the charter.

"SEC. 1409. (a) The Secretary shall not charter or sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the trans-Pacific or trans-Atlantic general dry cargo liner service for a ten-year period after construction of such vessel is completed, unless the Secretary finds that any such vessel is—

"(1) required to replace an existing vessel or vessels under an operating differential subsidy contract between the Secretary and such citizen entered into pursuant to title VI of this Act; or

"(2) necessary to replace an existing vessel or vessels twenty-five years of age or otherwise commercially obsolete.

"(b) The Secretary shall not charter or sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the coastwise or intercoastal trade, unless the Secretary of Defense directs a waiver of compliance with this section to the extent considered necessary in the interest of national defense, after affording notice and an opportunity to be heard to existing coastwise or intercoastal trade operators.

"SEC. 1410. There is authorized to be appropriated to the Fund such amounts as may be necessary to capitalize the Fund.".

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HEARING TO CONSIDER H.R. 3798, H.R. 4136 AND H.R. 4146

House of Representatives,
Committee on Armed Services,
Seapower and Strategic and
Critical Materials Subcommittee,
Washington, DC, Tuesday, March 4, 1986.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 2212, Rayburn House Office Building, Hon. Charles E. Bennett (chairman) presiding.

OPENING STATEMENT OF HON. CHARLES E. BENNETT, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS SUBCOMMITTEE

Mr. Bennett. The subcommittee will come to order. Today the subcommittee considers the subject of the build and charter concept for building merchant ships that would be useful for national defense purposes.

Specifically before the subcommittee today are three bills that would authorize the creation of a mariner fund for which funds were reserved in the fiscal year 1986 authorization act These bills are H.R. 3798 by Representative McKernan of Maine and H.R. 4136 by Representative Biaggi of New York, and H.R. 4146 by Representative Jones of North Carolina.

Each of these bills would, among other provisions, authorize the creation of a revolving fund to build militarily useful merchant ships and receive revenues from their charter.

For several years this committee has been concerned about the declining merchant fleet and the ability of the merchant marine to support adequately our national defense needs. Numerous studies and hours of testimony by expert witnesses have confirmed the overwhelming importance of sealift to the successful execution of U.S. military strategy. These same sources have also highlighted the increasing risks involved in depending on the merchant marine to provide sealift as our U.S.-flag and U.S.-controlled fleets dwindle in number and military utility as well.

As a result, this subcommittee took the lead in bringing forth legislation to create a Presidentially appointed Commission on Merchant Marine and Defense, established in the law nearly 2 years ago. The purpose of the Commission is to seek a comprehensive approach to ensuring the adequacy of the U.S. merchant marine for our defense needs, an approach hopefully that will garner the consensus needed to enact needed legislation and make policy changes.

Unfortunately, the President has not yet named his appointees to the Commission and so its vital work goes undone. I have recently written the President and asked for the opportunity to visit with him on the matter and told him the only reason I want to take up his time is because I want to see that this Commission goes forth, and in the back of my mind is that he might prefer getting off the dime and appointing the Commission rather than seeing me for 5 minutes, which may be more painful. Judging from past Presidents, I would think that the possibilities are that he would appoint the Commission.

Turning to the specifics of the bills before us today, an item of concern is whether ships built by the fund would actually be used. Simply put, the question is, Are there any ships in today's market that can be both militarily useful and commercially viable? All of those nuances have to be considered.

It would not make sense to spend money to incorporate the features in the ships that are directed to commercial use if the ships are going to end up in the reserve fleet soon after they are built. We will build military ships if that's what we are going to do, and so we have to look at that aspect of it which is an aspect which is not necessarily one which pops immediately into one's head when one thinks about this matter.

I'm not trying to be negative about it. I am trying to be very positive and trying to be sure that whatever we do is something that in fact does what we want it to do rather than just subsidizing something that won't be all that helpful.

Another area of concern for this committee in considering a mariner fund is the relative importance of the expenditures for sealift ships as compared to combatant vessels. The bills before us draw their initial funding from defense money and if this were to be continued in the future, the committee would be faced with choosing between funding combatant vessels for the Navy and funding sealift vessels for the peacetime merchant marine. This is hardly fair to the defense of our country since we are short and we are going to be much more short of ships in the future if we continue in the present budgetary dilemma that the Federal Government has.

We have a number of witnesses appearing before the committee today, including Representative Dyson, a member of the subcommittee; Assistant Secretary of the Navy Pyatt; the Maritime Administrator, the Honorable John Gaughan; and representatives from the shipbuilding industry, ship operators, and maritime labor unions.

In addition, a number of groups and individuals, including the three sponsors of the legislation before the subcommittee, have submitted statements that will be included in the hearing record.

[The statements of other individuals and organizations follow at the end of the record.]

Mr. BENNETT. Mr. Dyson, are you here? Yes, sir.

Mr. DYSON. I sure am, Mr. Chairman.

Mr. BENNETT. Mr. Dyson is one of the most devoted men to this committee, I think, that exists. He has a lot of other assignments, including the Merchant Marine and Fisheries Committee, but he is about as dedicated a Representative to doing his committee work, which is where most of the work of Congress is done, and so it's a real pleasure to have a man of his ilk before us. There are not many like him. We're glad to have you here, Mr. Dyson.

Mr. DYSON. I was pleased to hear that, Mr. Chairman.

Mr. CARNEY. That's just the way you wrote it.

STATEMENT OF HON. ROY DYSON, A REPRESENTATIVE FROM MARYLAND

Mr. DYSON. I would like to remind the gentleman from New York I've been on the committee longer than you have.

Mr. Chairman, I am going to take the lead of my other colleagues, the ones you mentioned in your opening statement. I am going to submit my statement, but I wanted to be here today to emphasize how important that I think this is and to appear as a witness to add emphasis to this.

I think I talked to you about this, along with probably Mr. McKernan of Maine, about 2 years ago; that is, this as a possibility, and, I think, you said it well in your opening statement, that you know we are looking for something to help and support our local economies, but at the same time if we are ever in a protracted situation, wartime scenario, we are going to have to have the merchant shipping and the merchant ships, and I have seen in my 6 years in the Congress, and I have served on this subcommittee longer than any other subcommittee in the Congress, that I have just seen that dwindle and dwindle and dwindle, and, I think, you, out of frustration a couple of years ago, proposed a commission.

There was a lot of opposition to that. I think in a way there is still opposition to that in that the administration has not appointed anybody to that commission. We in a sense did that—I supported that with you—we in a sense did that because there just didn't seem to be any other way to handle the issue or to approach the issue or put it on the front burner.

I see a tremendous growth in the gray bottoms, but I realize if we are ever in the Middle East or in any other part of the Far East or any other place and we have a long conflict, we are going to have to support our troops there, and, I think, if the present trend continues, we are not going to be able to do that, and that worries me as a member of both the Armed Services Committee and the Merchant Marine and Fisheries Committee.

As I said, I intend to submit my testimony, but I wanted to appear not just as a committee member but as a witness today to applaud you, to thank you for at least having the hearing on this. As you well know, and the rest of our committee, we can't do anything with the moneys that Senator Stevens placed in the continuing resolution unless the authorizing committees of both this House and the Senate come up with some kind of authorization.

There are a number of bills that have been floating around, in fact for a couple of years, so we have got the vehicle with your leadership—and I have always been impressed with your leadership. You have moved many more mountains than I think probably I have or will ever be able to do. I hope that that can be done on this issue, and I am looking forward to working with you on that today.

[The statement of Mr. Dyson follows:]

PREPARED STATEMENT OF HON. ROY DYSON

During the last five years we have spoken of the need for a strong Merchant Marine and the need for a strong civilian shipbuilding and repair industrial base. Our maritime industrial base has been in decline for years, and unfortunately for the long-term defense interests of the United States, the decline continues. It is disintegrating, and few seem ready to defend the common good.

Ladies and gentlemen, that must change. Or the Navy and the Merchant Marine that we all believe and know to be vitally important will be only an illusion, for it will lack the in-depth repair and component base that is essential if it is to survive in combat.

This terribly complex issue cannot and will not be solved until a much greater awareness of the problems and needs of the American shipbuilding industrial base is fostered by each of us.

Historically, two criteria have served for assessing the value of our Merchant Marine. In general terms, these are the industry's commercial viability and its capability for serving as a naval or military auxiliary in times of emergency. Though we are confronted by a complex array of issues when evaluating maritime resources—issues as intangible as our commitment to free trade, and as difficult to quantify as the aggregate social costs of supporting a diverse industry comprising suppliers, shippers, owners and builders—the guiding principles of our maritime policy should always focus on commercial prosperity and military preparedness. Thus, while the Congress and the Administration carry out the elements of a program for attaining a 600 ship Navy, a similar commitment of national resources—both economic and political—should be made to enhance the commercial aspects of our merchant marine.

Regrettably, the policies of the last few Administrations have disregarded this need for balance and has compelled me to think through more thoroughly the national security and economic implications of staying the course much longer.

Our merchant fleet is today embarrassingly small. Ten nations have more vessels and seven have more tonnage. The average age of our fleet, being roughly 19 years, makes it alarmingly obsolete. Nonetheless, the problem debilitating our merchant marine is definitely not a shortage of supply. Both long-run trends and current cyclically depressed shipping markets have produced a frightful excess of tonnage. Even when the international shipping market recovers, the overtonnaging problem afflicting U.S. lines is likely to worsen long before it improves.

Along with the declining share of foreign trade being carried aboard U.S.-flag vessels is the rising number of vessels being laid up worldwide. In 1976 U.S.-flag ships carried over six percent of our international trade. Four years later this level dropped to just above four percent. Last year, with nearly a billion cargo tons passing through American ports, U.S. vessels carried roughly three percent.

As worldwide shipping has declined, and with it U.S. shipping, so too has the commercial business in U.S. shipyards. In fact, while U.S. shipping has suffered greatly in the world market, U.S. shipbuilders have suffered even more. Not since 1962 has a foreign owner placed an order with an American builder. But in the last decade, 300 U.S. ships have been built overseas. In the last three years alone, 35 "unsubsidized" orders have been placed with foreign shipyards; and since December 1981, 50 orders have been approved by MarAd for subsidized vessels.

At the same time, the number of commercial ship orders placed with U.S. shipyards has declined precipitously. Between 1980 and 1985 only 5 new sealift capable vessels were ordered from American builders. This decline in shipbuilding orders imperils the livelihood of more than 100,000 workers, countless suppliers and, if the Department of Defense is a reliable judge, the mobility of our armed services.

There are more than 110 yards in the U.S., ranging from the model facilities at Bath and Newport News to small shops doing light repair work. Of these, there are 24 yards constituting our prime contracting industrial base. These account for 70 percent of total shipyard employment and are scattered along the Eastern Seaboard. Right now these yards employ 110,000, with 28,000 workers serving commercial orders and 82,000 workers employed in naval shipbuilding. This represents a decline in employment of more than 12 percent from the 1977 labor force, when 48,000 workers labored to build commercial ships and 77,000 worked under naval contract.

What is most important about these figures is the decline in the commercial shipbuilding workforce. By the end of 1986 commercial orders will occupy only 35,000 workers. If something is not done to promote commercial ship orders, this situation can only worsen.

Recent surveys estimate that a minimum shipbuilding labor force of 165,000 is required to assure us an ability to sustain wartime sealift operations. This requires a commercial workforce of over 40,000, or roughly 35 percent of total shipyard capacity. Unfortunately, the prospects for new orders for commercial cargo vessels this year is not encouraging.

The logistical complexities of military transport and supply defy quick description and easy comprehension. But I believe a few basic observations make accessible the scope of the problem. More than 75 percent of our active ground troops are stationed in the continental U.S. Each armored division will require, when deployed, no less than 100,000 tons of material supplies. Sealift will have to provide 90 percent of all nonfuel and 99 percent of all fuel supplies to be consumed by deployed forces. Since as much as 80 percent of military cargo is not easily containerized, and since our troops will not necessarily be deployed to locations with deepwater ports, our sealift capability must contain a broad variety of vessels suitable to adverse conditions.

In addition to the mind-boggling activity this aspect of sealift involves, there is also the problem of guaranteeing the speedy and reliable supply of strategic cargo required for continuing wartime production. Of the 71 commodities the Department of Defense considers vital to our industrial security, 68 are imported in whole or in part. These commodities will have to be imported from sources as distant as South Africa and Australia.

In addition to our 484-ship privately owned merchant fleet, our sealift resources include roughly 233 vessels in the National Defense Reserve Fleet, 65 ships in the Military Sealift Command, 70 vessels in the Ready Reserve Force and the more than 450-ship "effective U.S.-controlled fleet". Thus the sum total amounts to approximately 1,302 ships.

The military usefulness of the flotilla is less impressive than its raw aggregate size. The National Defense Reserve Fleets 150 ships average nearly 40 years old, and constitute at best, an unreliable military asset. And much of the projected expansion in the Military Sealift Command and the Ready Reserve Force amounts to transferring commercial ships to military service, thus not adding to the size of the total sealift capacity.

There is, finally, "the effective U.S.-controlled fleet". Unfortunately, contrary to the Administration's assumptions, this fleet is a questionable military asset not because of its sovereignty, but because it does not contain many vessels of the sort that will be needed for sealift purposes. At most, the repatriation of the entire foreign flag fleet will return self-sustaining bulk cargo vessels to American registration. This is hardly a mammoth increase in our sealift capacity. According to Vice Admiral Kent J. Carroll, USN (Ret.), a minor contingency operation, along the order of the Korean or Vietnam conflict, would require as many as 350 ships. Even under reliable conditions, with the entire National Defense Reserve Fleet readied, more than half of the U.S. flag liner fleet would be required. And in the opinion of Admiral James L. Holloway III, USN (Ret.), even this may not be enough.

In a conflict of larger scope, one engaging the NATO and Warsaw powers, the variables are less easily computed. The total NATO seapower exceeds 10,000 vessels, and the sealift requirements amounts to perhaps 30,000 vessels. But these would have to survive the offensive capabilities of a large Soviet submarine attack fleet prowling the North Atlantic. Shipping losses would be more severe, and the need for repair facilities much greater than in an isolated conflict.

The inescapable conclusion of any survey of our present sealift resources is that there is definitely no surplus of militarily useful vessels. This is not any less true after taking into account the addition to these resources that may come from encouraging the repatriation of foreign-flag vessels. Given this situation, any policy threatening to liquidate our shipyards takes on the appearance of the absurd. Should such a policy in fact have this effect, and I am convinced the Reagan policy will, the Department of Defense may soon add ships and components to its list of strategic imports. Not only will we not be a reliable military ally, we will not even be militarily self-sufficient.

The only reason for shipyards is to build ships, and the only guarantee that in times of national emergency these yards, their complement of skilled workers and the component suppliers will be operational, is to promote a steady demand for U.S.-built ships.

The only way to promote the demand for U.S. ships is to promote the demand for U.S. cargo and U.S. conveyors. This logic has been, however, ignored for many years.

Short of enacting legislation that would require that a certain percentage of all cargo be carried on U.S. built and U.S. manned vessels—and, by the way, if you think that's a logical and therefore easier approach to this problem, then you haven't heard from any farmers lately. Anyway, short of that, we need a plan—and the Build and Charter Program is a modest one—to get us from where we are today, especially in the area of commercial ship building, to a time when a broader, more comprehensive program for revitalizing the merchant marine is available. That, ladies and gentlemen, will not come without some anguish, perhaps, and certainly not without some compromise.

The maritime community is, at times, a rather Byzantine place. But the Build and Charter program provides an opportunity for that community to put together on its own and plan for building and chartering ships that have both commercial and military capabilities.

And I would submit that this is a cost effective means for getting what we need in sealift assets. And the life of this program—and I think it should be structured this way—will depend on how effectively the shipbuilders, shipowners and operators work together.

Finally, Mr. Chairman, I would argue strongly that a plan to build only naval ships is not enough. If we as a nation are to be prepared to sustain realistically the full combat potential of our maritime forces. While we might get the necessary merchant hulls to carry the supplies we need—at least initially—a dramatically reduced commercial shipbuilding and repairs industrial base will not provide the support necessary to replace or repair the naval and maritime assets we will use in any real fight. That is really the only issue.

Mr. BENNETT. Thank you very much. Any questions of this witness? I think we all know—you can express yourself up here.

Mr. DYSON. Thank you, Mr. Chairman.

Mr. BENNETT. We appreciate very much your coming. The next witness will be the Honorable Everett Pyatt, the Assistant Secretary of the Navy, Shipbuilding and Logistics.

Mr. Secretary, we are glad to have you with us.

Mr. PYATT. Thank you, sir. I have a prepared statement that I would like to submit for the record.

Mr. BENNETT. Without objection, so ordered.

Mr. PYATT. And I will briefly summarize it because I know again you really want to get to the questions and discuss the issues at hand.

STATEMENT OF HON. EVERETT PYATT, ASSISTANT SECRETARY OF THE NAVY, SHIPBUILDING AND LOGISTICS, DEPARTMENT OF THE NAVY

Mr. PYATT. This revolving fund would be used by the Navy to build militarily useful merchant ships and charter or sell those ships to private operators for use in commercial trades.

In fiscal year 1986, the continuing resolution has earmarked $852 million in prior-year Navy shipbuilding savings as initial capital for the fund.

We are opposed to this legislation. The build and charter method of procuring sealift capability is not necessarily more effective than our current method of buying ships for the Ready Reserve Force [RRF] and holding them for activation.

We believe that many types of vessels that could be constructed under this program would not be commercially viable unless the charter rate or the sale price were extremely low—too low to permit recovery of the investment and the establishment of a genuine revolving fund. Therefore, the Congress would be required periodically to increase the capital value.

We have several issues of detail, but rather than be swept up in those, I will just leave them for the time being. We have been asked several times that, if over the Navy's objections and the administration's objections, this program would come into existence, what would you build? And we say as you look around now, the most interesting kind of ship is a product carrier.

As all of you know, military operations are heavily dependent upon fuel. Our recently completed DOD Sealift Tanker Study shows that in 1990 we will have a shortfall of approximately 75 handy size tanker equivalents in the militarily useful tanker fleet. We asked U.S. owners to offer product tankers in our 1986 RRF procurement, and no responses were received. In fact, as we look around the commercial segment, we find the 50,000-ton category product tankers to be fully employed.

Worldwide we believe there is approximately a 4-percent unemployment rate, which is extremely low. In the current market environment, this size tanker seems to be more commercially viable than some of the other categories.

Mr. BENNETT. I'm not sure I understood that last sentence.

Mr. PYATT. Because product carriers are something we need in for defense; we need to put them in our RRF. This is a good military use. Currently in the world market as far as we can tell, there appears to be enough demand to support charters. The energy industry seems to be moving toward more refining closer to the point of production so that you could postulate that there would be an increase in the demand for product carriers while crude carriers become less important in the maritime economy.

Mr. Chairman, we are in accord with your goal of a strong, healthy merchant marine and shipbuilding industry, but we do not believe that this proposed program will accomplish that goal for the reasons that we have outlined.

[The statement of Mr. Pyatt follows:]

PREPARED STATEMENT OF HON. EVERETT PYATT

Mr. Chairman and distinguished members of the Committee. I am Everett Pyatt, Assistant Secretary of the Navy (Shipbuilding and Logistics).

It is my pleasure to appear before this committee to discuss H.R. 3798, H.R. 4136, and H.R. 4146, bills which would establish a "Military Auxiliary Revolving Fund."

This revolving fund would be used by the Navy to build militarily useful merchant ships and charter or sell those ships to private operators for use in commercial trades. The FY 1986 Continuing Resolution has earmarked $852 million in prior year Navy shipbuilding savings as the initial capital for the fund.

Mr. Chairman, we are opposed to this legislation.

The build and charter method of procuring sealift capability is not necessarily more cost-effective than our current method. Our principal program for increasing our defense sealift capability involves procurement of existing militarily useful ships that have become surplus to commercial requirements. Those ships are placed in the Ready Reserve Force (RRF), where they can be activated for use in emergencies.

We also believe that many types of vessels constructed under a build and charter program would not be commercially viable unless the charter rate or the sale price were extremely low—too low to permit recovery of the government's investment over the life of the ship. This would mean that the revolving fund could not be replenished from the proceeds of charters or sales. Long-term viability of the program would require continuing annual appropriations by the Congress.

Most of the bills under consideration have problems in their detail. Specifically, the procurement process specified will not work. It contemplates a two-step process—first, competition for construction of a ship, then competition for chartering the ship. We believe that ships should not be built on speculation. If a build-and-charter program were instituted, it should be designed so that shipbuilders and ship operators presented proposals for construction and charter operation. This would prevent construction of ships for which there was no market. It does not make sense to build ships that would go directly into Ready Reserve Force inactive status.

The only ship type we would likely build under this program would be product tankers. The recently completed DoD Sealift Tanker Study shows that, in 1990, we will have a capacity shortfall of about 75 handy-size tanker equivalents in our sealift tanker fleet. We asked U.S. owners to offer product tankers in our FY 1986 RRF procurement. No responses were received. This appears to be the only commercial shipping segment which is not overtonnaged and, in fact, is fully employed. As such, chartering of government-built tankers for commercial use may be feasible if we are willing to accept a charter hire rate low enough to offset foreign-flag advantages such as lower crew cost.

Mr. Chairman, we are in accord in our goal—a strong, healthy U.S. merchant marine and shipbuilding industry. We do not believe, however, that the proposed build and charter legislation will accomplish that goal.

Thank you for this opportunity to present our views. I would be pleased to answer any questions you may have.

Mr. BENNETT. Mr. Spence.

Mr. SPENCE. Thank you. Mr. Secretary, I think most of us recognize the need for the capacity that we don't presently have right now, but what will the alternatives be if we don't use this approach for sealift?

Mr. PYATT. The alternatives are a continuation of the kind of thing we have been doing—getting an annual appropriation to buy Ready Reserve Force ships and then tie them up as a reserve force. We have done that now over the past 3 years with shipbuilding appropriations.

Mr. SPENCE. You think we are doing enough of that to provide the sealift we need?

Mr. PYATT. We have added to the fleet about two divisions worth of RO/RO capacity. That's in line with our defense guidance. Clearly when you get into a situation, scenario of estimating the attrition, looking at anything like the submarine threat of World War II, you very quickly get concerned about the number of ships. You also get concerned about our ability to produce the equipment that is on the ships. That would also be lost, so there are a lot of problems.

Mr. SPENCE. How about the market for used ships? Do we have much of a market there we can tap?

Mr. PYATT. We have been tapping it, and we have bought, in the last 2 years, foreign flagships to try to bring into the U.S. fleet some more capacity, particularly in RO/RO's. Some place along the line we are going to run out, because most of the ships available on the world market are crude carriers, which are not of interest to us, and container ships. In the U.S. fleet there are quite a few container ships.

Mr. SPENCE. I thought I heard you say a while ago that we are most in need of product carriers.

Mr. PYATT. Yes, sir.

Mr. SPENCE. For the reserve fleet?

Mr. PYATT. As we look at our study, it shows that we could use additional mobilization capacity in product carriers.

Mr. SPENCE. That's all I have, Mr. Chairman.

Mr. BENNETT. All right. Mr. Dyson.

Mr. DYSON. Thank you, Mr. Chairman. In your testimony that you are submitting here it says that "It contemplates a two-step process—first, the competition for construction of a ship, then competition for chartering the ship."

That seems to be your fundamental objection, is that correct—the Navy's fundamental objection?

Mr. Pyatt. No; our fundamental objection is to the, I think to the concept of taking money and building ships that we didn't request in the President's budget. This paragraph deals with objections to the process in the three bills.

One of the bills is taken very much out of the old mariner program legislation. Others have taken a little bit different slant, but in thinking about the problem, because several of the members and staff have forced us to think about the problem, I think you don't want to get into a situation where the Navy starts building ships based on commercial speculation. You want to have a pretty firm view and belief that the ships built will be employed. So, a couple of the versions or one of the versions didn't make that clear, and that's what we are addressing in this paragraph.

Mr. Dyson. Well, I understand that and I understand your initial objections, or what I guess you would call your real objections. But obviously a lot of people, and you said so yourself, a lot of people in Congress don't feel that way or this wouldn't have gotten this far.

The section of your testimony that I was referring to I think, and the chairman himself touched upon it and I know before this subcommittee in earlier hearings he, too, has said that is an area where he has some concern—if we are able, notwithstanding your initial objection, if we are able to put together some kind of a bill, and I'm sure that it certainly won't be any of these three, but it will be one that will be drafted by Chairman Bennett, will you come up with a position of—I'm sure not favorable, but at least will you lay off the issue in a sense that you won't come up with a negative?

Mr. Pyatt. In working with this committee——

Mr. Dyson. I guess what I'm saying, can you work with us on this?

Mr. Pyatt. I think we have a record of working with you. I would plan to retain that record.

Mr. Dyson. It has taken us 6 years to get to this.

Mr. Bennett. We're not trying to catch you off guard if you are unable to reply at this point.

The next witness, I mean next inquirer——

Mr. Pyatt. I won't guarantee that we will agree, but we will work with you.

Mr. Bennett. Mr. Bateman.

Mr. Bateman. Thank you, Mr. Chairman. I don't want to exhaust all of my questioning time with comments, but may I make some comments for the record and which I hope might be of limited value at least to Secretary Pyatt?

I have been in Congress now for 3-plus years, and when I got here our merchant marine was in a very drastic decline, and certainly my presence here hasn't helped it much. It has gotten considerably worse over that 3-year period of time.

Mr. Bennett. It's not your fault.

Mr. Bateman. I am anxious about that because it is a very strong concern that I think all of us have shared because of the implications for our national security.

I am also totally convinced from the many, many hours of testimony that I have heard in the Merchant Marine Committee on which I also serve that there is no way that we are going to revitalize the American merchant marine without a maritime policy on the part of the Government of the United States that encourages the various components of our merchant marine, which I would define as shipbuilders, the crews who man them, and the companies that own and operate them, and we are not going to have a healthy merchant marine unless we have all three of the healthy components, and we are certainly not going to meet our national security requirements if we don't attend to our shipbuilding mobilization base.

I think the Navy studies certainly convince me that that is a problem. It is certainly the case that we are losing shipyards at an alarming rate and that unless we attend to that there simply is not going to be enough to keep that mobilization base in tact as we build toward the 600-ship Navy goal.

Therefore, as much as I don't like the idea of taking funds that basically are a result of Navy shipbuilding efficiency and building something other than noncombatant ships, there is a need for sealift. There is an urgent, compelling general need for the enhancement of all aspects of our merchant marine which brings me to the bill and the reluctant necessity as I see it for the bill.

Now in your testimony you indicate that if this somewhat innocuous proposition were to be enacted the area of principal need would be in product carriers.

Would you say that the recent Department of Defense studies include some advantage at least if not clearly an identifiable need for selected dry cargo carriers?

Mr. PYATT. Our efforts in—let me start back. During the last 5 or 6 years, the Navy has done something that as far as I know has not been done in the prior history of the country. That is, to enter into the market and purchase ships for use as sealift ships. Prior to the last 5 or so years of initial purchase of the SL-7, and then purchases of other ships, there were no Navy ships dedicated for movement of ground forces cargo. That has been our reaction to the change in the state of the U.S. merchant marine.

Part of the evolution of the merchant marine has been the advent of containerization which makes a very successful transportation segment. It is very useful where you have cranes and ports and all the necessary infrastructure, but less useful in military operations, so we have had to recognize that in many respects industry has passed us by and our needs are more basic, so we have had to enter the market.

We have bought a number of ships. We have spent over $1 billion for ships alone plus probably on the order of $1 billion for support and specialized equipment to take care of them. That's a result of the change that you identified.

In our dry cargo fleet, according to the study that we looked at, we are in relatively good shape. We are in much worse shape in the tanker fleet, and that was the reason that I brought it up, because I knew this question was going to come up one way or another.

Mr. **Bateman**. Well, Mr. Secretary, my quarrel is not with the fact that you identified a larger need in terms of the product carriers, but while it is the larger need, that is not to say that there is not a definable need or an advantage to enhancing our dry cargo carrying capacity.

Mr. **Pyatt**. That's right, but it also says that in container ships, with the sea sheds and flat racks that we have been buying, and will continue to buy for the existing U.S. flagships, we see how Navy money can make these ships more useful. Our emphasis has been there rather than on acquiring more ships.

Mr. **Bateman**. I expect my time is near expiring, so let me ask this final and somewhat general question. I understand the objections that have been cited to the legislation, but can it not at least be said that the legislation is well designed and subject to technical problems as to how the competition for the build and charter should be managed?

Can it not accurately be said that it does do something in terms of our shipbuilding mobilization base and for a very distraught industry?

Mr. **Pyatt**. Yes; it would likely mean additional work for the shipbuilding industry.

Mr. **Bateman**. And is that not an objective that is laudatory?

Mr. **Pyatt**. It depends, I guess, from whose point of view you are taking. Clearly, from the shipbuilder's point of view it is laudatory.

Mr. **Bateman**. I am speaking in terms of the public interest point of view. Is not a shipbuilding mobilization base important from the national security perspective? Is it not also important from the point of view of jobs creation and for the economy in the United States that we maintain a shipbuilding capacity in the United States, recognizing that if the Government of the United States has no interest in domestic shipbuilding, then we will never build a ship in American shipyards given the subsidization that takes place in all of the foreign shipyards with which we compete along with their lower labor costs?

Aren't we faced with the U.S. Government must either do something to promote a domestic shipbuilding capacity or to preserve it or that we will have none over time?

Mr. **Pyatt**. Well, I think that if you are talking about just the commercial segment, not the military segment, that U.S. shipbuilding is not competitive in the world market for a variety of reasons ranging from wage scales to financing subsidies, a whole variety of reasons.

Mr. **Bateman**. None of which the American shipbuilding industry can obviate or do anything about, so if anything is going to be done that addresses the competitive disadvantage, then the U.S. Government as a matter of national policy is going to need to do it.

Mr. **Pyatt**. One thing that the U.S. industry can do something about, and has done in the military side, and perhaps anything that comes out of this bill should be a challenge to them, is to work on productivity, to make these kinds of ships as efficiently as they make the military ships. I think if this bill is enacted over our objections, that needs to be a clear challenge.

Mr. **Bateman**. I would not disagree with that, and certainly I would hope that my colleagues on the committee would join as I think they will in asking that the shipbuilding industry, the operators, all who are involved, seek to enhance productivity as much as it can be done and, bearing in mind that there are limits as to whether or not they could do it to such an extent as they become absolutely competitive with foreign carriers and foreign shipbuilders, given the kind of massive subsidization and nationalization, wage scales that would be totally unsatisfactory in the context of America.

Mr. **Pyatt**. Yes; I would like to add just a bit more—I mentioned shipbuilders, ship operators, and ship unions have the same challenge. We have done calculations that say that even if the ships were free they couldn't be competitive, so there is—you started at the beginning with the three aspects, and you need to stay there with these——

Mr. **Bateman**. When I said I hope my colleagues on the committee will challenge the industry, I meant all aspects of the industry, to do the best that can be done with American technology and know-how to minimize the costs. But I think we do have to recognize that we are not in the real world ever going to be able to be totally competitive price for price, item for item, given the kinds of subsidization and the extent to which other countries as a matter of national policy insist that they are going to be shipbuilding, ship-sailing nations.

Mr. **Pyatt**. Yes, sir.

Mr. **Bateman**. I will cease and desist for a while with that, Mr. Chairman.

Mr. **Bennett**. Mr. Carney.

Mr. **Carney**. Thank you, Mr. Chairman. Mr. Secretary, when was the last time our Government has produced a document that would give us an assessment of our shipbuilding capabilities?

Mr. **Pyatt**. We produced one last year, one the year before, and one the year before. Annually, we come up and testify in these hearings upon request. We produced studies of sealift requirements and mobilization, the last one of which is on tankers. There have probably been more studies than people can comprehend the meaning of, and I'm afraid it's another area of excessive paper that our Government manages to turn out.

Mr. **Carney**. You couldn't have said it better for me. I will yield back my time.

Mr. **Bennett**. Mr. Sisisky.

Mr. **Sisisky**. Thank you, Mr. Chairman. Secretary Pyatt, under the bills that you cited in your testimony, you talked about a military or auxiliary revolving fund.

Is this purely the savings that the Navy has made in shipbuilding?

Mr. **Pyatt**. Currently as it was appropriated in the continuing resolution at $852 million, I think it is almost all Navy savings that were accrued from our shipbuilding contracts on military ships.

Mr. **Sisisky**. There is no other thing out of the Navy's industrial base or anything else?

Mr. **Pyatt**. No; there may be some money. I'm not sure, but there may be some money from the other services, a small amount, but it is almost all Navy money out of the shipbuilding account.

Mr. SISISKY. I'm a little perplexed. You talked about how the Navy bought about $1 billion worth of ships that you put in the Ready Reserve; is that correct?

Mr. PYATT. Yes; we bought the SL-7 ships and by the time we finished converting those, the cost was about $600 or $700 million; and we have been in the market several times since to buy used ships, and I estimate that is another $300 million or so.

Mr. SISISKY. I assume from the estimate in your testimony that these ships would probably be put in the Ready Reserves.

Now my question is what good is the Ready Reserves unless we have crews in order to man them. I would assume that the newer ships have the state of the art in navigation and things like that. What good would it do without trained crews to put on the ships? How long would it take to get them out of the Ready Reserves and put crews on it?

Mr. PYATT. We have exercises annually and I can give you the details of the number of ships, but it is a few ships every year that we pull out, activate, crew, and we manage to do it in 10 days.

If you had a general mobilization and put all these ships at sea, I believe we would have a real problem in getting enough crews to man all these ships. We have talked about various approaches to it, including making them the Navy Reserve and mobilization billets, but——

Mr. SISISKY. It would just seem to me that anything that we do, following my colleague from Virginia, we need to do all the way down the line. In other words, I don't see any sense in building ships unless you are going to use them—and that may be a nasty word called "subsidy"—in order to do it in some way, some type of cargo preference or whether you use cruise ships that obviously all up and down the east and west coast they are using cruise ships and I assume they move troops by, you know, ships of that type. But it just seems to me that it is a foolish thing to build ships and just put them in the Reserve and not have trained crews in order to use them.

Mr. PYATT. May I make a correction of your understanding of this bill which we have opposed? And that is that one of the provisions calls for the ships to be in operation. Prior to building them you would have agreements that they would be in operation and not built and tied up. This has been one of the chairman's issues that he has raised when we have had discussions.

Mr. SISISKY. I would agree with your premise that we shouldn't just build ships. We should build ships as an owner/operator deems necessary and the things that he needs in the ship or they need in the ship, is that correct?

Mr. PYATT. Yes; One of our objectives here is to have something that you believe is commercially viable, so that you at least get some payments back to the fund.

Mr. SISISKY. Thank you, Mr. Chairman.

Mr. BENNETT. Mr. Hartnett.

Mr. HARTNETT. I just have a couple of questions that I have been asked to pass on to the Secretary. As I do so, you can answer them now, Mr. Secretary, or you might let me submit them for your consideration later on.

One, what is the total strategic sealift goal for the Ready Reserve Fleet and when do you expect that goal to be met?

Second, can the Navy achieve this goal only through the purchase of existing tonnage with funds appropriated in the strategic sealift request?

Third question would be, Mr. Secretary, not to belabor you with too many questions, if the Navy admits that they have a shortfall in Ready Reserve sealift assets and continues to request funds to buy tonnage, if the use of the $852 million in the mariner's-type program seems to make good sense and provide needed assets, then why has the Navy been so reluctant to support the program before the Armed Services Committee?

My point again, Mr. Secretary, I want to add on the questions—again, you can let me submit them to you and answer them later by mail. I just want to give it to the record. You know, I wonder sometimes what the Navy and what those of you who are charged with operating the Navy think the Navy's commission would be in a time of war? And I suppose if I were to ask that question of you and others at the Pentagon, it would be well, we have to control the sealanes and we have to have firepower, and supporting shore batteries, and things like this. And I would think that probably the last thing that you would get around to mentioning is the fact that somewhere in there the Navy is responsible for ferrying personnel and supplies if there is a battle hopefully on somebody else's shore.

My first year in Congress the Commandant of the Marine Corps told the Armed Services Committee, don't worry about any rapid deployment. We've got more fight than we can ferry.

We still have got more fight than we can ferry 6 years later and more fight than we can support if we get it there, and I just really think, as much as I commend you and did the other day in the Armed Services Committee for the role that you have played in bringing about what I consider to be a much stronger and better equipped, better personnel in our Navy, I really think that some of us have been real derelict in recommending, pushing for and insisting upon a better type of ship fleet that we could use to carry men and supplies to wherever that the battle area will be.

I hope I have not confused my questions with my rhetoric. I might submit those for your consideration, but the first one was, you know, what is the real strategic sealift goal for the Ready Reserve Fleet? What is that goal and do you think we might reach that goal?

Mr. PYATT. I will have to give you the numbers. It is in the order of 100 ships. We are at 80 some right now, and under our purchasing program, we have done a little bit of every year. I can provide for the record exactly how that has happened.

Sooner or later we run out out of ships to buy because the divergence of what is militarily useful and what is commercially useful. You can see that in the ships being built today. Sooner or later we run out and then we have to start worrying about building ships for specific military applications. But I think you have seen the things that we have done with the purchase of the SL-7, the long fights we had in the Congress about the idea of build and chartering, but we got the 13 ships completely finished for the maritime pre-positioning force and 11 of them are deployed, so we have fought our way through. We fought on the finance side. We fought on the appropriations side. We fought it on the authorization side and made it. We have some dedication to pursuing our goals.

Another thing I would like to mention is that until more or less two years ago, maybe three, the Navy did not have in Navy regulations a responsibility for sealift. It was added in. Secretary Lehman added it, in recognition of the kinds of things that you brought up. It can now be found that one military responsibility of the Navy is to provide sealift. That means to integrate sealift with our military activities, to treat them as combined military activity. In the time that you and I have been here, things have changed and are changing and maybe we just haven't talked about some of these things enough. However, you can go back and check and yes, changes did occur.

What's enough? Well, that's a problem we all have to face in each area; in submarines, destroyers, sealift, and to put it in the budget, balance the budget, so——

Mr. Hartnett. You know, I always felt the merchant fleet is such a vital part of our national defense. We lost more ships in the early days of World War II than we have in the whole U.S. merchant fleet now, and I just think that anything that the Navy can do to encourage, support, promote that, it is going to be vital. I'm telling you that unless the fight is here on our own shores it is going to be extremely vital, and we are just not as capable as we were or should be I don't think.

I thank you for being here. Again, I commend you for the role that you have played in helping bring about a much finer Navy.

Mr. Pyatt. Thank you, sir.

Mr. Bennett. I have got an inquiry from Mr. Dyson who wants me to yield to him, but I have a couple of questions I would like to ask first.

Do you estimate the sealift requirements to support our military strategy can be satisfied in the course that we are now taking, and if so, how long will it take?

Mr. Pyatt. One, we have had studies in dry cargo and in product carriers which you just mentioned. We had defense guidance that said first provide the equipment lift for one division equivalent. Then, the guidance increased that to two divisions. Both of those are finished. We bought the ships. The lift for the last division is in the process of being upgraded at the shipyard.

What comes next? I don't know. We have also bought the——

Mr. Bennett. You have the two divisions, increased the number of divisions?

Mr. Pyatt. That's right.

Mr. Bennett. You are saying you came from a place where the Navy had no responsibility, just looked to the maritime industry. We relied upon the maritime industry. The maritime industry has failed to be strong enough to take care of our needs, so the Navy has had to get about it, and the concept of how deeply the Navy ought to go or how far its objectives ought to be is something that is still expanding, but I presume the Navy does have a feeling that how many such ships it would have to put to sea if we had a war in Europe?

Mr. Pyatt. Yes; there are studies on that.

Mr. **Bennett**. I don't want to give rise to another study.

Mr. **Pyatt**. Most of the results are classified. It makes no difference since I can't remember them anyway, but with the——

Mr. **Bennett**. If you will put them in the record; that's really what you are getting down to. You are getting down to whether or not we have on paper at least an objective to meet certain goals, and this may be a place where we are not meeting it and we are not even looking at it, so if you will put that in the record. You say it is classified and you can't remember it anyway. That's a good reason not to give the statement. I can't think of two better reasons for not doing it.

If the sealift requirements are not being met, which I think is probable, what is your plan to meet them? Since that is based upon classified information as well, I would appreciate it if you would put that in the record.

Mr. **Pyatt**. The general plan is reliance on purchasing ships for the RRF and then figuring out how to go about manning those ships, and my projection is—likely with Navy Reserves.

Mr. **Bennett**. Mr. Secretary, you know, after being in Congress for a long time, and looking at things coming down the pike, and seeing how people feel about it, I feel that there is almost a roll going in Congress for something like this legislation.

It was responded to vehemently by the creation of the Commission, which the administration has yet to really help us very much on, and I am not condemning the administration, but they haven't yet really done much to push it.

It will eventually explode and how does it explode? Somebody gets on the floor of the House and offers an amendment to a bill. It will have no real thought, no real hearings. The language will be so simplistic that everybody will see it is perfectly wonderful and it will pass. It will become law.

Now you have an opportunity to shape this in the Navy and a direction that would be helpful to the Navy's objectives. Knowing that something like this is almost inevitably going to occur, it would be very unwise for you to think about just resisting this legislation. I am not talking about you personally. I am talking about the Navy as a whole. If you just resist it without looking at the possibility of carving out of it something that you could feel would be worthwhile, I think you would be making a grave mistake because here is what is going on in the mind of the average Congressman.

The average Congressman knows that it is beneficial to have these bottoms on the sea. I mean going back and forth and being used. He knows it is valuable to have people that are able to manage these ships in time of war. He knows that it is valuable to the national defense to have shipbuilding and ship-repair concerns that are viable instead of ones that have to be revived and get new people trained in time of war.

He knows it all has something very real to do with winning the conventional type of war which is much more likely to occur than the nuclear type of war, so really at the heart of this is a very real need. The need is obvious. Everybody understands that.

Now the only thing that you are putting, that is put against this—I'm not saying you are putting it against it, only that it is being put against this, is that you haven't found the right way to do it, but you see when you have this pent-up feeling on the part of Congress you must do something about it, somebody will simply particularly get on the floor and offer an amendment and nobody is going to vote against it. It is going to go through.

Now we have an opportunity here to do this in a way in which it would make the optimum amount of sense, and I would urge you very much to try to get the thing that would make the most amount of sense, because I think it is going to become law and I think that if you don't have an input into making it the best you can you will make a mistake because it is going to occur. It is going to be imposed on you without much thought because we haven't had hearings. We are trying to have a hearing today to see where the imperfections can be shaped out.

One great problem is, and it worries me a lot, if you just produce these ships and they never go to sea, that would be pretty awful. If you spent all these hundreds of millions of bucks and the ships never went to sea, I think that would be pretty sad. I mean it wouldn't help the merchant marine, wouldn't help the Navy. It would help them some, but not much. And then the problem with that is you won't have put this money into real combatant ships since we are not going to be able to have a 600-ship Navy on account of this deficit situation unless we somehow get 3 percent at least growth. If it is zero, we are not going to get it, so with all that, all this problem—but you know, I understand there is no really great opposition in the administration, although I haven't any official information about this, to utilizing the almost $1 billion of savings that the Navy has made, although you would probably have preferred putting it in military ships. You are not going to get it in military ships. I mean you are not going to be able to seize that military ship until you put something in this legislation.

You might be able to do that. That is another thing you might be thinking about, think about the possibility of putting in this legislation something that said that okay, we authorize the $850 million for that kind of ship, we are also going to authorize another $850 million to do something—you are going to be short on something in the direction of a combatant, another attack submarine, something like that. It would be very hard for the people that are strong for commercial ships to resist utilizing this money which is originally for combatant ships, for more combatant ships, and so it would probably pass, and so I urge you to do some thoughtful thinking on this subject to see whether you can come out with a maximum benefit for the national defense, because if you do not do it, it is likely to pass in some form which will not be the ideal form for you, and I am not sure what the ideal form is, but I think that as long as you see almost $1 billion and actually $6 billion but there is only $1,850 million involved in this particular bill—$850 million has been attached for this, attached for this particular objective, I think that that is very likely to pass on some form, and you ought to see what you can do to make it the best form, going to have to pass the best it can be.

You don't really have to agree to it. Just do the best you can to see it would be the best you can do for the Navy as a whole and its objectives. I would urge you to do that, to look at the legislation not from the standpoint of just saying I am opposed so let's kill it, but looking at it from the standpoint it is, something like this is likely to pass even if it does not pass this committee. It is likely going to pass on the floor. There is no way to stop it because people do not have a good enough argument to stop it. It is going to pass and it will eventually become law. So I urge you to look at this legislation with great care to see that you can get the maximum national defense and maximum commercial and commerce aspect out of it and the maximum keeping of a foundation for shipbuilding and ship repair, all these things of great interest to our national defense, every one of them.

And if you do that, I think we are going to get something that is going to be worthwhile. I myself have never introduced this bill, although I am chairman of the subcommittee and I could readily run with it if I got something I felt was really sound. I wouldn't take it away from anybody else, but I would join with them in this effort and my mind is certainly not closed to doing something like this. I think it is going to pass anyway even if I resist it. I think something like this is likely to come about and I think you are making a mistake if you didn't try to do the best you could to see that it wound up—and the best way you do it anyway I would think would be to authorize another $150 million, $850 million out of this $6 billion and put it into an attack submarine or something that we greatly need, and I do not see how the people for commercial ships can, could exactly say they did not want to do that, or you could combine.

In this funding you might say, for instance, would it make sense for the Mariner Fund to be allowed to buy existing ships as the Navy has been doing in recent years? See, there are lots of things you might look at or that would not solve all that people want in this legislation, but you might have a proportion of it that way; in other words, allow some of it to purchase ships that you are now purchasing. That would be a positive thing for the Navy since it is going to happen anyway. You might as well make it happen in a way that has a maximum benefit for the Navy itself, and if you do not do it, it is going to happen in a way that is here now and you are going to get the least benefit instead of the most benefit.

If I suggested one very simple one, and that is how about saying that some of it is going to be used for what you are doing now out of Navy funds, purchasing these ships that are already there? That is going to satisfy the shipbuilders, ship repair people. If they got something out of it, that would be something in a positive manner and I think the shipbuilding and ship repair people have a reason to think they are part of the situation. I am sure you do, too, as well.

I have talked too much maybe. I urge you to think through this legislation to see if there is something. You do not have to agree to it, but shall we say the least damaging that would occur to you.

Of course, I think there has got to be something with regard to organized labor. Labor is going to have to say they make some concessions in this matter. Otherwise the ship will never go to sea anyway. It will not be physically viable to put the ships to sea and I would like to see them used. I do not really want to build a lot of ships that are not going to be used.

OK. All right. Well, I have said too much already. I have said I would yield to Mr. Dyson.

Mr. DYSON. Thank you, Mr. Chairman. Can I endorse those remarks?

Mr. BENNETT. Yes, sir.

Mr. DYSON. I know everybody laughs, but I think what the chairman said is probably the most important thing that has been said today.

Mr. BENNETT. No wonder you have succeeded so well on this committee.

Mr. DYSON. For you, Mr. Secretary, and also for MarAd and the rest that are here; you can very easily have someone offer under the authorization bill when it is on the floor a simplistic approach to this. What you end up have happening is that the chairman of this committee, of this subcommittee, having to basically mark up and develop a bill in response to that offering. My question to you, though, right now is I think probably the Secretary of the Navy recognizes that inevitability and it is my understanding that last week before the Senate Defense Appropriations Subcommittee he stated publicly that he supported, supported the mariner program, and like I said, if I can speculate on his behalf, that is probably why he did it.

Anyway, my question is that Secretary Lehman represents the same Navy that you do, and you are out here today in opposition to all of these proposals. Could you tell me who is right?

Mr. PYATT. The boss is always right.

Mr. DYSON. He's right?

Mr. PYATT. But there are other bosses in town, too.

Mr. BENNETT. You see I did not really make it in the contention you have to approve the legislation. I am just saying you come forth with the least objectionable legislation, knowing full well something worse may happen. I urge you——

Mr. PYATT. I understand the message, Mr. Chairman.

Mr. DYSON. Mr. Chairman, could he answer that question? I am still a little confused. The Secretary of the Navy is in support, and Secretary Pyatt is not.

Mr. PYATT. There are other people in town that deal with legislation. When you ask for a prepared statement, a process is set in motion. His was not a prepared statement. If you read it a little more carefully, I think he said that this came from shipbuilding savings and to put it back in the shipbuilding industry seems to be the right place if that is what you are going to do to us.

I talked to him about those remarks. I remember the remarks, and you read more into it than he or I do.

Mr. DYSON. You know he always has a chance to change them later in the reprocessing of the hearing record and my understanding is that he is not. He is still in favor.

Mr. PYATT. It is my understanding that always, when you get the hearing record you correct editorially. You do not change what you said. I never have and I do not think he ever has. Sometimes we have regretted it and wished we could, but we do not do that.

Mr. BENNETT. I will bet if he felt like it he could get one attack submarine in all this bill together with those ships. I bet he would leap at the opportunity, and he should, because otherwise he is not going to get the attack submarine, and this is all Navy savings. It really technically comes out of a great big pot which is not all Navy savings. It is not all Navy savings, but at least this amount of money plus one attack submarine is Navy savings, so if he was actually able to get that, I would think he would be doing a good job. I do not see how the people that want to build maritime ships could object to having savings out of combatant ships being used for combatant ships in addition to using it for maritime ships, so that would seem to me to be very simple, and he would not have to approve it. He would just have to say that is the least sticking thing that he can do.

Mr. PYATT. On the issue of savings and combatant ships, we still have one that we like to get resolved, and that is the battleship. As I mentioned in our last hearing——

Mr. BENNETT. That's an appropriation thing.

Mr. PYATT. We have twice as much money as we will need to spend and we can not spend any of it.

Mr. BENNETT. Maybe that is what we ought to do. That is not that much money.

Mr. SCHAFER. The issue is that we authorized the battleship reactivation with the use of savings. The Appropriations Committee appropriated new money for the reactivation, so there is a mismatch, and the correction is one of two things—either for the appropriation to be revised to make it, the appropriation, in line with the authorization or for the authorization to be revised to make it in line——

Mr. BENNETT. If we change it, what would it be?

Mr. SCHAFER. To authorize the funds that have been appropriated but may not be obligated.

Mr. BENNETT. Why don't we put that on this bill?

Mr. SCHAFER. That could be done.

Mr. BENNETT. I guess that would not be enough for you to like it. I was actually seeking more money for you than that, but if that is what disturbs you——

Mr. PYATT. There is a whole series of problems.

Mr. DYSON. I think you are getting closer to getting him to like it.

Mr. BENNETT. I am not sure what all that means, but you get my point of view, and I would rather have had you get an attack submarine. But if you want to get this other thing which is a smaller amount of money, if you feel it is a price that you can pay, then I would suggest you get it while it gets, before somebody gets on the floor and offers an amendment. I think this bill is going to pass even if this committee turned it down, and so it might be wise for you to think about that now and get this in shape where it will be thoughtfully done and we carve it out the best way we can do it.

Mr. Carney has another question I think.

Mr. CARNEY. Mr. Secretary, you said that you have done many studies on our sealift capability, and indeed we have. Referring to the study of April of 1985, the sealift study, the Secretary of the Navy, in that study says that there are 600 ships available to us through a NATO commitment.

Is there that same 600 ship availability today?

Mr. **Pyatt**. The agreement certainly is, and I do not know how much the NATO inventory has changed up or down. I have to furnish that number for the record.

Mr. **Carney**. I have heard as recently as a couple of weeks ago—in fact I have heard from people from DOD and the Department of Transportation—that there are not too many people that speculate there are more than 400 available to meet that commitment.

We also look to the effect of the U.S.-controlled fleet, and in that study there were 400 vessels available in the 1985 timeframe, 28 of which were useful for military cargo and 57 for military petroleum, POL, but from January 1 of this year to today, it is my understanding that we have lost about 4,700,000 tons in the effective U.S. controlled fleet.

What effect does that have on the new vessels that are capable of handling military requirements?

Mr. **Pyatt**. I don't know. I would have to look and see how much of the loss is crude carriers and how much is product carriers. Crude carriers would have no impact on military requirements. Loss of product carriers, as I mentioned earlier, would cause substantial concern, and I just have to look at the tonnage and see—I will furnish that for the record if I may.

Mr. **Carney**. Even right after our most recent study—by the way, the dry cargo study came out right at the end of last year, if not the beginning of, January 1986. Am I mistaken on that?

Mr. **Pyatt**. I don't know when it finally came out—it has been working around quite a while.

Mr. **Carney**. That was the bottom line, that we lost 4,700,000 tons before your slides that you gave in your presentation were dry.

The point that I am trying to make is that we see the patient dying. I mean we are now in cardiac care, and we are not sitting down, as the chairman said, trying to formulate a decision with the administration, with industry, with the Congress, and we obviously are going to have to do that or we are going to take the steps that the chairman says. We are going to jump up on a table and start pounding the merchant marine on the chest with the hopes that it might survive. I'm fearful that it won't.

The RRF is woefully below where it should be. The target was 116 vessels—100 dry, 16 for petroleum products. You might have increased that after the tanker shortage study, but we are at 64 there, and I am not convinced we are going to be at that goal in 1991.

We obviously have witnessed in the last 2 years since we have done an assessment of U.S.-flag ships, the decline of availability of U.S.-flag ships, so I think if you look at everything that we use and our sealift or MSC ships have remained static, the entire U.S.-flag fleet has diminished. The RRF is woefully inadequate. The effective U.S.-controlled ships have diminished more than we anticipated from a study that is less than 3 months old. The NATO allies are down to maybe one-third or, pardon me, they are down to 75 percent of what their commitment is. They have the capability of doing that, and you know, I don't even know if we can talk about the national defense reserve fleet; 96 of them are World War II vintage. I don't know what it would even take to get them moving or whether they would be worthwhile, so obviously the situation is horrendous.

It's a national disgrace, and it is also, I think, a situation where we have a glaring malfunction in our national defense. We have to do something about it. I am not prepared to comment on this particular legislation, but I can certainly tell you that we are going to have to do something and I am very interested in hearing everyone else's comments. I would hope that, you know, that someone, I hope you would be listening to what my feelings are and the feelings of my colleagues here today because time is running out. We have to do something and I hope you would be in a cooperative mood to help us.

Mr. **Pyatt**. All I can say is that we recognize that you had to do something when we came up and pushed the appropriations for the SL–7's and for the other ships that we have gotten the Navy into that have not been in as part of our history. We have made a change in policy.

Now we are talking about the speed at which that continues. I think it is that simple. We have done a lot in buying sea sheds and flat racks to use the container ships now in the merchant marine. There is a limit, as the chairman points out very clearly. We have a certain amount of money to deal with. In the conflict between combatant ships and other fields, we feel the pressures all the time. I guess you do, too.

Mr. **Carney**. Indeed we do. I think there is some creativity that still remains out there where we can enhance our sealift capabilities. As my colleague said here, it seems to be a curseword. I don't see why it is. It is for our national defense. We subsidize every other damn thing. Why can't we subsidize cargos, give cargo preference and that type of thing for no other reason than national defense, but there seems to be a hesitancy on that fact. In this budget we are talking about eliminating the hard-fought battle. We had to maintain cargo preference before. We don't have, as you said—I kind of cringed when you said that you thought that you would use Navy Reserves for the Ready Reserve Fleet. We are in a sad state of affairs if we have to do that.

I would hope that at best we use merchant seamen entirely or a mix, but you seem to give up on the idea of even having merchant seamen available for the ready reserve. That's frightening.

Mr. **Pyatt**. I was speculating on a possible evolution of the way things are going because people are here from the unions and they can address it a lot more directly than I can. The number of seagoing people is declining and when you need U.S. people to do U.S. missions, you have to get them from some pool, and as we look around, the available pool is the Naval Reserve.

Mr. **Bennett**. I think this has been very productive. We have had one witness here now. It is now after 11. If we come back this afternoon—we are not going to get through all this this morning. I am not trying to cut anybody off. I'm just sort of hinting.

Mr. **Carney**. Mr. Chairman, I have been notified that there is a full committee meeting this afternoon at 2 o'clock.

Mr. **Bennett**. We don't have the opportunity.

Mr. **Bateman**. Mr. Chairman, especially in light of that I don't want to extend this unduly, but if I can have 30 seconds' worth I would just like to concur in what you have said, and I think the bottom line of it in your message to Secretary Pyatt is the Navy needs to do one of its very excellent jobs in damage control in so far as its official view of this legislation, so just practice very innovative damage control.

Mr. PYATT. Yes, sir.

Mr. BENNETT. The next witness we have then is Mr. Gaughan, Maritime Administrator, Department of Transportation. Thank you.

STATEMENT OF HON. JOHN GAUGHAN, MARITIME ADMINISTRATOR, DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY DICK BOWMAN, ACTING DEPUTY ADMINISTRATOR; REGGIE BOURDON, ASSOCIATE ADMINISTRATOR FOR POLICY AND INTERNATIONAL AFFAIRS

Mr. GAUGHAN. Good morning, Mr. Chairman. I am John Gaughan, Maritime Administrator. I am accompanied at the table today by Mr. Dick Bowman, the Acting Deputy Administrator, and Mr. Reggie Bourdon to my left, the Associate Administrator for Policy and International Affairs.

I, too, have a prepared statement which I with the committee's permission will submit for the record.

Mr. BENNETT. Without objection.

Mr. GAUGHAN. Mr. Chairman, if I could summarize very briefly, the administration deeply appreciates your efforts to support the U.S.-flag merchant marine.

However, we cannot agree that the build and charter is the correct approach and oppose H.R. 3798, H.R. 4136, and H.R. 4146.

Instead, we view as an appropriate approach the two legislative proposals submitted by the administration to the Congress that would, first, authorize the foreign construction of subsidized U.S.-flag vessels, and, second, make any such vessels immediately eligible to transport cargos reserved to U.S.-flag vessels under the Cargo Preference Act of 1954. As you know, the administration's build foreign legislative proposal has been introduced as H.R. 3141.

The administration favors the approach taken in these two legislative proposals because it is consistent with the administration policy that the expense of a modern, commercial fleet should be borne by the private sector and not the taxpayer.

In contrast, we believe that under the build and charter program the purchase price or charter hire would have to be so low in order to be commercially viable that it would require annual appropriations in addition to the $852 million already appropriated.

That concludes my remarks, Mr. Chairman.

[The statement of Mr. Gaughan follows:]

PREPARED STATEMENT OF HON. JOHN A. GAUGHAN

Mr. Chairman and members of the Subcommittee. My name is John A. Gaughan, and I am the Maritime Administrator of the Department of Transportation.

It is a pleasure for me to appear this morning and present the views of the Administration with respect to H.R. 3798, H.R. 4136 and H.R. 4146. These bills would amend the Merchant Marine Act, 1936, by the addition of a new Title XIV providing for a Build and Charter Program.

Subject to the conditions and restrictions in the three bills, the Build and Charter Program would generally authorize the Secretary of the Navy (Secretary) to construct in private U.S. shipyards merchant vessels capable of serving as naval and military auxiliaries in time of war or national emergency. Upon delivery, the Secretary would sell or charter these vessels to U.S. citizens for operation under the U.S. flag in the foreign commerce of the United States.

Funds for the construction of these vessels would be provided from a revolving fund in the U.S. Treasury (Fund). The bills provide that money for the Fund would come from appropriations, moneys received for the charter or sale of these merchant vessels, and any other money as may be made available for the purposes of the Fund. H.R. 4136 and H.R. 4146 further provide for moneys received from the repayment of Construction-Differential Subsidy. As you know, section 8103(B) of the Continuing Resolution for Fiscal Year 1986 (Public Law 99-190, approved December 19, 1985) provides $852,100,000 for the Fund.

Mr. Chairman and Members of the Subcommittee. The Administration deeply appreciates your efforts to support the U.S.-flag merchant marine. However, we can not agree that Build and Charter is the correct approach, and oppose H.R. 3798, H.R. 4136, and H.R. 4146. Instead, we view as an appropriate approach the two legislative proposals submitted by the Administration to the Congress that would (1) authorize the foreign construction of subsidized U.S.-flag vessels; and (2) make such vessels immediately eligible to transport cargoes reserved to U.S.-flag vessels under the Cargo Preference Act of 1954. As you know, the Administration's Build Foreign legislative proposal has been introduced as H.R. 3141.

The Administration favors the approach taken in these two legislative proposals, because it is consistent with Administration policy that the expense of a modern commercial fleet should be borne by the private sector and not the taxpayer. In contrast, we believe that under the Build and Charter Program, the purchase price or charter hire would have to be so low, in order to be commercially viable, that it would require annual appropriations, in addition to the $852,100,000 million already appropriated for this purpose.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions that you or the Members of the Subcommittee may have. Thank you.

Mr. BENNETT. Mr. Spence.

Mr. SPENCE. Mr. Chairman, thank you. The questions I have to raise, I don't know whether you can answer them or not. I am concerned about the bottom line, and I don't know. If we enact these bills, there are a number of things you want to do from the standpoint of helping shipbuilders—provide jobs, and stay in business, and build ships to help maintain the numbers in our maritime fleet and provide jobs for merchant sailors.

If we do all these things and enact these bills, the bottom line then is how can we be competitive and provide work for these fleets and sailors we have?

That seems to me to be the bottom line, and I don't know how these things are going to do that. It might happen in the meantime if we keep things going for a while we just aren't competitive. We have got to do something to be competitive, even if the subsidies carry the whole load there, but in any event, the handwriting is on the wall.

People in Congress being who they are want to help their constituents to build ships, and create jobs, and all these kinds of things, so something is going to pass, and if it does, what do you view as being your role and the position you occupy from the standpoint of consultation in these kinds of things?

Mr. GAUGHAN. Mr. Spence, the Maritime Administration has worked very closely with the Navy, going back to the Second World War, in working on these types of shipbuilding programs.

Most recently my agency serves as the contracting agent for the Navy in the procurement and then the modification in shipyards of the present RRF fleet. I would anticipate that that coordination role would continue if the build and charter program or some variation were enacted.

Mr. SPENCE. In other words, you would try to see to it that the ships that are being built to meet this criteria of serving both the military and the commercial roles can be built and operated in this country at a profit?

Mr. GAUGHAN. My agency certainly has the capability to provide information to the Navy in terms of markets and so forth, yes, sir.

Mr. SPENCE. That's all I have, Mr. Chairman.

Mr. BENNETT. The next to inquire is Mr. Dyson.

Mr. DYSON. Mr. Chairman, the Administrator here today certainly knows of my interest in this. He should know it firsthand. He should also know that I have been sort of listening to the same song from MarAd for 6 years now.

I just want to read two quotes. You don't even have to respond to them. I just sort of would like to have them in the record.

One is:

> The flag of the Soviet Navy flies over the oceans of the world. Sooner or later the United States will have to understand that it no longer has mastery of the seas.

The second quote:

> We cannot expect others, either our allies or adversaries, to respect our interests if we show no respect or concern for them ourselves. Failure to develop and carry out an effective naval maritime program will deny the use of the seas to the United States, eventually to the free world.

The first quote was by the admiral of the fleet of the Soviet Union, and the second one was by Ronald Reagan, and somewhere along the line we are missing the boat. We are certainly not living up—we seem to be living up to one and jot the other, and that worries me

That's all my questions, Mr. Chairman.

Mr. BENNETT. Mr. Bateman.

Mr. BATEMAN. Thank you, Mr. Chairman. It would appear to this member that from the studies that have been done, even in the euphemistic terminology of 2 years ago, that the shipbuilding mobilization base, that was marginally inadequate. We have deteriorated significantly in our position since.

It is also very clear from the figures and projections that I have seen that a bad situation in 1984 that is worse today, is going to be significantly worse within the next 3, 4, 5 years. It is constantly declining even as we speak.

That being the case, I have some problem with a national policy that refuses to address that concern and which seems to be relatively indifferent to America's domestic shipbuilding capability.

When I look at your prepared statement today, Mr. Gaughan, and see that the administration's solution to the problem is whatever is needed and not denying that there may be needs, go buy it from foreign shipbuilders, it just seems to fly in the very face of any recognition that the United States of America has any legitimate interest or concern in preserving and protecting a domestic shipbuilding capability which cannot be maintained at adequate levels based only on naval combatant ship construction.

Having said that, I guess I should give you an opportunity to tell me wherein I am wrong in this perception.

Mr. Gaughan. Mr. Chairman, the administration's policy of proposing legislation to build foreign comes about from the harsh reality that the U.S. shipbuilding industry has not been able to be competitive in the commercial market.

Mr. Bateman. You are saying then that unless the U.S. shipbuilding industry can be fully competitive with subsidized, nationalized foreign shipbuilders who perhaps are not only beneficiaries of the direct subsidies and national relation of shipbuilding but of their steel industries and who operate with a significantly lower wage base that would be intolerable in the United States, that that being the fact of the national commerce, let the American shipbuilding industry disappear?

Mr. Gaughan. Mr. Chairman, in light of the naval building program in the United States, the repair program that goes with that, and the increasingly wide differential in both cost and delivery times, we have reached the conclusion that foreign construction is the preferred option.

Mr. Bateman. Well, I guess that says it very upfront and certainly I commend the candor.

I do find it shocking that we are going to write off this industry because there is no one who could look at the statistics and determine that we are going to be able to maintain even a marginally inadequate domestic shipbuilding capability as we move to the 1990's and attain if it is indeed possible to attain the 600-ship Navy.

Domestic shipbuilding has declined. It declines every day. The decline is expected to accelerate as we move closer to fulfilling the 600-ship Navy objective. It seems to me that you are saying that every shipbuilding maritime power on Earth is wrong in their subsidization and assistance to maintaining their shipbuilding and maritime capability but it is—and we are right, that it really isn't important whether or not we have that capability. I find that mindboggling.

Mr. Gaughan. Mr. Chairman, the thrust of my comments were that the economic realities are that our shipbuilding industry is not competitive. I would ask that that not be read to mean that there isn't a recognition that there is a national defense need.

Mr. Bateman. Well, I don't think that really addresses a solution to the problem. It gives me some less heartburn than originally, but that heartburn can't very well go away.

Mr. Bennett. Will the gentleman yield?

Mr. Bateman. Yes.

Mr. Bennett. Just following up on what he said, I think it ought to be pretty clear from the standpoint of what the Congressmen are saying in this hearing that when this thing hits the floor, unless very thoughtful opposition that was well organized and well thought through resists what is in this legislation, it is going to pass, and one of the reasons it is going to pass is what he just touched upon. In other words, there isn't a deep, abiding conviction on the part of Members of Congress that it is all that sinful for the U.S. Government to assist the merchant marine industry against competitive industry abroad which is subsidized.

If the Russians think it's so doggone good to spend billions of bucks to get the Russian fleet all over the world, which they are doing today in defense purposes—they are not doing it just for commercial—if they think it's so good, why is it so bad for us to think that maybe that's a place where we ought to be doing some subsidy?

That thought is in the heart and mind of every Member of Congress, including my own. In other words, why is it so sinful for us to do something on the part of our country to get a viable merchant marine by the subsidy process when we are competing with somebody else or other people who are utilizing those tools?

For us to say we somehow or another have some doctrinaire philosophy which cuts that off from us doesn't face the reality that we are possibly going to have a conventional war and possibly would have the need for all these bottoms. At that time can we say well, we are righteous as our ships went down, as we were being gobbled up by the opposition which was being subsidized by its government? Because we're being righteous we are being defeated. Most Members of Congress don't feel like being that esoteric. They feel like we are supposed to find answers whether we intellectually think them all through or not, and that is what Mr. Bateman is talking about.

That feeling is on the part of every Member of Congress, that we ought to do better with our merchant marine. The fact we haven't found a perfect thing that fits Reaganomics or fits into the Keynesian theory is really not in our heart. We don't expect to figure out that. We expect to figure out what is best for the national defense of our country, and we don't find a good answer coming from the administration.

I don't blame the administration, but that feeling in our heart which Mr. Bateman so well expressed is not going to go away, and absent some very intellectual thing that is thoroughly convincing, this legislation or something like it is going to pass because we know we are trying to get a stronger merchant marine.

Mr. **Bateman**. Mr. Chairman, I thank you for reinforcing my point of view. You did it very beautifully.

Mr. **Bennett**. I think you raised a point, a very good point. A Member of Congress is just not going to be that intellectual about it. He is going to say we need a strong merchant marine and all the Reaganomics or ideas or front side supply, whatever it is, you have to get down to defending your country.

Mr. **Gaughan**. Mr. Chairman, if I could just make a—and it does not serve as an adequate answer or response, but certainly the subsidy programs of the Merchant Marine Act that were in place did not turn out to be the answer, either.

This build and charter program—and I am not a shipbuilding expert—I leave that to Mr. Pyatt—may result in 8 to 10 ships, built in three or four yards. That in and of itself certainly isn't going to address the larger question or the concerns raised here, but I probably said too much and I will stop with that.

Mr. **Bennett**. Mr. Bateman, do you have any further questions?

Mr. **Bateman**. No, Mr. Chairman; other than I could say that maybe this bill is only six or eight vessels. I would hope it is more. Maybe it is only three or four shipyards, but that is more vessels than we otherwise have. That is three or four shipyards that otherwise may be lost, and all the consequences of both the national security and human terms and in economic terms, you know, all the things that happen by virtue of maintaining a shipyard mobilization base are not negative things. They are people who work. They are people who pay taxes. It is an incredible enhancement in the stream of commerce that the country loses from its economic base, if we just let it slip.

Not to keep riding this horse beyond its second life—we just have got to face up to the fact that if we want a merchant marine, domestic shipbuilding capability, the Government of the United States is going to have to find through governmental resources a way to keep it alive and to sustain it at least at levels minimally adequate for our national security, and I haven't seen any recognition of that cold, clear fact of life on the part of the administration over the 3 years that I have been on the Merchant Marine Committee and now a member of the Seapower Subcommittee.

If you don't sense the enormous frustration that is building up at the unwillingness to confront the obvious, then you are not being very receptive to what we have been trying to tell you over these last few years.

The answer is not let us go out and buy some foreign ships.

Mr. GAUGHAN. Mr. Bateman, that certainly is part of the answer, though, because if you can acquire ships and put them in the commercial stream, they would be available for wartime shipping.

Mr. BATEMAN. Well, my understanding is that you already have existing authority which does not please me but nonetheless is out there to acquire a number of foreign-built ships.

From my perspective at least it is not only enough—enough of that is enough. It is already enough of that is too much, so let's for heaven sakes don't address this bill in the context of the bill referred to in your testimony—let us go out and buy some more additional foreign-built ships.

Thank you, Mr. Chairman.

Mr. BENNETT. Mr. Carney.

Mr. CARNEY. Thank you, Mr. Chairman. Mr. Gaughan, I'm sure you are aware that at the present time the Merchant Marine Subcommittee is marking up the merchant marine bill right now.

There are four members of that subcommittee that are here missing the markup—Mr. Bateman, myself, Mr. Dyson, and the chairman. That should give you a message of how important we think this issue is. In this committee that should tell you how important we believe a viable merchant marine is to our national defense, and I would hope you would recognize that, and I want to move off these three bills at the moment to make comments about the merchant marine bill.

We are not getting good signals at all. You know, you say you are not for this bill. You say you are for building foreign, but you are not even for that because you are not doing anything.

You have cut the budget at the Merchant Marine Academy another 20 percent this year. You are doing everything possible to take away the cargo subsidies that we want in the agricultural bill. You know, be honest at least with us. Come up here and tell us that you don't think there is going to be a merchant marine in the year 2020, and there won't be if we follow the policies that you bring up to the Hill with us.

Don't you see the requirement that we have for our national defense? We need vessels to carry out a war, and here we have an administration that has done virtually everything possible to improve our military capability with the exception of giving that military the capability of delivering its products and its soldiers and sailors and airmen around the world.

Why do we continue to do that? I don't understand it. I find it incomprehensible. We look at, we said we study, study, study. I sometimes get the feeling that the administration likes to study so they can put it right out. I mean for 8 years we can study and then we will not have been part of a subsidy for shipbuilding or a subsidy for the operation of the merchant fleet.

I know of no listener more conservative than I and I know that there is a general distaste in my mouth for having Government do what the private sector can do, but history will tell us since World War II that if we don't have some Government help the merchant marine cannot exist and we have to recognize the importance of the merchant marine and we have got to recognize the terrible state of affairs it is in right now. And if we don't, why do we spend all this money? Why are we building the 600-ship Navy when we can maybe get a third of a marine division deployed in a rapid fashion? Maybe, you know, take the pre-positioning and the FASS and the FSS fleet. We might be able to get some of our commitment there.

Mr. Hartnett is correct when he said that well, we can't ferry the amount of fight we have now, and I don't know what we can do as a Congress to bring that to your attention. It is very, very depressing to have had to go all through this time in and time out in the past 6 years.

I just wanted to have that opportunity and to invite you to work with the Congress, you know, work with the Merchant Marine Committee, work with the Seapower Subcommittee. You have got to see the same faces on the committee in many instances. We are all looking for the same thing and we should find the solution because the chairman is exactly right. We are going to do something on the floor of the House at 2:30 in the morning and it is going to become public law and half the lobbyists are going to go to Bull Feathers and get drunk. The other half are going to be commiserating with each other. That's how it works, you know, but we are not going to make effective legislation then.

We have to sit down, work with everybody, and I am inviting you to do that, to work with this committee and work with the Merchant Marine Committee and work with the industry. Damn it, we have to do it. That's all I have to say.

Mr. BENNETT. I don't believe we have any more inquiry of this witness, so we have Mr. William E. Haggett of the Shipbuilders Council of America. Come forward, and we appreciate it very much. We appreciate your coming, Mr. Haggett, and you can proceed.

Do you have a statement you would like to put in the record or do you want to just go ahead and read?

Mr. HAGGETT. I would like to just quickly paraphrase this statement, Mr. Chairman.

Mr. BENNETT. Your whole statement will be put in the record.

STATEMENT OF WILLIAM E. HAGGETT, CHAIRMAN, SHIPBUILDERS COUNCIL OF AMERICA, ACCOMPANIED BY LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. HAGGETT. Mr. Chairman, I am William E. Haggett. I am the president of Bath Iron Works and chairman of the Shipbuilders Council of America. I am here today in that latter capacity, although I am wearing a shipbuilders' hat.

I have with me Mr. Lee Rice who is president of the Shipbuilders Council.

I am here to advocate the Build and Charter Program which I think puts me in a far more comfortable position than either one of the preceding speakers who I judged were a little bit itchy in wearing the hats that they had to wear today.

The Shipbuilders Council for years now has been attempting to alert the Nation about the perilous condition of our merchant marine as it relates to national defense. We have been trying to bring to the attention of the American public the deteriorating condition in our shipyards with respect to the decreasing number of shipyards, the decreasing level of employment in our industry, the concentration of employment that exists within a handful of shipyards, and the ramifications of all that on the national defense.

We have been supportive of the administration's effort and the effort of the Congress to rebuild the gray hull fleet. These efforts have restored our Navy to the position that it needed, and for a few American shipyards, put us in a position where we could not only supply ships to the Navy that from an operational point of view were very effective, but our productivity as shipbuilders increased dramatically to the point where we can now build ships as a world class competitor when it comes to the construction of naval ships.

It was testified earlier today that for a variety of reasons American shipyards are not competitive in the world market building merchant ships. I think even under the best of conditions that will continue. We will not be competitive in the world market, but I would suspect that we can demonstrate significant improvements in productivity and reduce the time required to build merchant ships if indeed we have the opportunity to build them.

Today we are building five ocean going merchant ships in the United States. We think the Build and Charter Program could conceivably create an opportunity to build 12 to 20 ships. Obviously the type of ship to be built or the size of that ship could vary considerably and therefore the costs associated with building the ship could vary considerably, but this program need not present opportunities to build only eight ships in only two or three shipyards as earlier witnesses have stated.

Conceivably far more ships could be built and more shipyards could participate in this program. We see the need for the program, Mr. Chairman, to move forward rapidly through this committee and through the Congress because even after legislation is enacted it will take perhaps the following year for contracts to be placed and a couple of years to produce the ships. You are looking at a timeframe of 1988 or 1989 before ships are going to enter the fleet.

We want this program to produce ships that will be used. One vital aspect is the need to get American seamen to sea on American merchant ships that have military utility. That doesn't happen with Ready Reserve Force ships and it never can. We want this program to go forward. We think it can. We think that these ships will be chartered after they are delivered. We think the real value of the program will surface when these ships get to sea and are put to use because then they will be a viable asset which can be called upon on one day's notice or very short notice. They will be working ships with crews that functions as a team, and even though as a practical matter a shipyard may be able to put a Ready Reserve Force ship to sea with a crew on it in 5 or 10 days as Mr. Pyatt testified. Those ships are certainly not going to function as a cohesive team in that timeframe and the probability of having problems with those kind of ships is immense.

This program addresses the need of our national defense which we think from a sealift point of view is far poorer than has been testified to this morning. It fills a real gap for shipbuilders until the benefits of the Commission on Merchant Marine and Defense that you have recommended can be seen. We applaud you personally for having promoted that effort.

It fills the requirement to get American merchant seamen to sea and it does it with funds, with savings that have been generated because American shipbuilders building ships for our Navy have been more productive and more efficient than our Government estimated would be the case some years ago.

That is a quick paraphrasing of my prepared statement. I will attempt to answer any questions.

[See statement of Mr. Haggett on p. 102]

Mr. Bennett. We appreciate your leadership in this. Mr. Spence? Is he here?

Mr. Spence. Yes, Mr. Chairman. Frankly I was just amazed to hear you say that we are only building five merchant ships now in the country.

Mr. Haggett. Yes, sir.

Mr. Rice. That's correct.

Mr. Spence. I knew it must be pretty low.

Mr. Haggett. Three in one shipyard and two in another.

Mr. Rice. Mr. Spence, there were no orders for sea-going commercial ships in 1981, 1982, 1983. Five were placed in 1984, none placed in 1985, so the five ships encompass that long a period of time.

Mr. Spence. Do you have any figures on how many orders are being placed by American companies?

Mr. Rice. Well, not nearly as many as this administration would like to have had placed; we did have that foreign building window. As Mr. Bateman's question referred to, there are a significant number of those authorities to build foreign that have never been used. I think we have added 24 new ships in the last 5 years.

At the same time, we have retired something like 230 ships from the active fleet.

Mr. HAGGETT. And those ships were built foreign.

Mr. RICE. Foreign built.

Mr. SPENCE. What is your opinion of the Navy's suggestion that a ship not be built on speculation but instead built only if there is a firm charter market?

Mr. HAGGETT. We would agree that we should think through the design carefully to make sure it has commercial utility and is of value from a military point of view. But we think that the program needs to get started without that guaranteed contract in advance. We think that the probability is high that the ships will be chartered and can be used and our recommendation is that you proceed on that basis.

In the worst case, you have some new state-of-the-art ships available in the Ready Reserve Force fleet that are not leased for a short period of time. That's the worst case. That's better than where we are today.

Mr. SPENCE. Earlier you heard me I'm sure, I agree that it will help to build a ship, have shipyards. It will help our maritime fleet. I would help to provide some jobs for our merchant sailors, but what is this going to do to the bottom line down there over an extended period of time from the standpoint of helping us and the Nation become more competitive in our merchant marine?

Mr. HAGGETT. I would view it as a stopgap measure. If indeed spending $850 million to build somewhere between 12 and 20 merchant ships was the extent to which our efforts were going to go, then I would think it would be simply a very small incremental benefit.

However, if you view it as an essential link between what is taking place today, and what the Commission on Merchant Marine and Defense may come forward with in terms of a valid long-term national maritime policy that deals with these concerns you gentlemen have been expressing all morning, then I think it is vitally important that we go forward with this program.

Certainly, it is not the final answer for anyone.

Mr. SPENCE. That's all I have, Mr. Chairman.

Mr. BENNETT. Mr. Dyson.

Mr. DYSON. Mr. Haggett, I would agree with you it is not the final answer; $850 million isn't going to resurrect the whole industry, but we are in a critical period and this is a defense committee and we are interested in this as a defense issue, and I know your colleague there at the table. I have seen him many times before the Merchant Marine and Fisheries Committee and I always ask him this question. Now I'm going to ask you.

You are a significant part of our industrial base, and if we lose it, how are we going to get those people back if we are in a wartime scenario? I think we are kidding ourselves if we think we can go down to the corner and get people to become a part of this industry which is highly technologized. We need highly skilled people to come on board.

Tell me if you can briefly how long it takes to train those people and where we would find them, since for the last 5 or 10 years they have been going into other occupations?

Mr. **Haggett**. The state of the art in shipbuilding is advancing rapidly. It has become very sophisticated. Skill levels required are so diversified and the skills need so deep that to put together a viable shipbuilding organization even if the facility exists, even if you can move into a mothballed facility, I think you need to measure in terms of years.

You can mothball a facility, but you can't mothball skills, and it takes years to develop a cohesive shipbuilding organization with the skills required to build ships today.

If we lose it, we will take years to restore it.

Mr. **Dyson**. So if they left the shipyard today and we were able to get those very people back, they would be at a disadvantage as far as coming on with the new technology?

Mr. **Haggett**. If we were to lay off everyone that worked in a shipyard and if they didn't move out into other jobs and didn't relocate geographically which is obviously what you would expect them to do, then you could bring them back and maybe in a few months you could start with very simple ships, but the engineering, planning, computerization of the shipbuilding process, computerization of the equipment that we are using today, just doesn't lend itself to a quick turnaround. You can't mothball those skills.

Mr. **Dyson**. Thank you.

Mr. **Bennett**. Mr. Bateman.

Mr. **Bateman**. I have no questions, Mr. Chairman.

Mr. **Bennett**. Mr. Carney? Excuse me. Go ahead.

Mr. **Carney**. I'm sorry, Mr. Chairman. Mr. Haggett, would you run down that worst case scenario again if this legislation were to pass?

Mr. **Haggett**. The question was asked was what happens if the legislation passes without guaranteed charters prior to the awarding of the contracts to build a ships. I think that was the question.

Mr. **Carney**. Yes, sir.

Mr. **Haggett**. And my response was we would end up with ships that would be built that could not be chartered. That's the worst case scenario, which would mean that we have new merchant ships that have commercial utility at some price and have military utility. I assume that those ships would become part of our Ready Reserve Force fleet. So in the worst case, the United States from a defense point of view is left with new assets that have real value in the state-of-the-art ships.

Mr. **Carney**. State-of-the-art vessels in ready reserve—thank you.

Mr. **Haggett**. Right.

Mr. **Carney**. Sir, would you speculate as to what types of ships would be best suited for this program where you would have a compatibility for both commercial and military application?

Mr. **Haggett**. Well, clearly the product carrier is a viable candidate and even more so because the Navy has now stepped forward and acknowledged the need that we have believed exists. Roll-on/roll-off ships have the flexibility and there has been a real demonstration of their military utility. They could be designed from scratch to have even more military utility and still fit merchant shipping requirements. Bulk carriers would also fit the bill.

We think that there is a need that exists for ships of all of those types—perhaps even modified container ships. Lee, do you want to comment?

Mr. RICE. Our analysis says that ships to trade to the lesser developed parts of the world meet the test of being militarily useful and commercially viable and are in demand. I think you will have others testify to that today.

The RO/RO bill talked about is clearly a candidate as a car carrier vessel. If we build them they have very high military use, and can find employment in our judgment in the car carrier market.

Mr. CARNEY. The petroleum type of vessel—would you speculate as to what size you think would be best suited for the utilization both in commercial and military applications?

Mr. RICE. Mr. Pyatt I think correctly talked about, what we would call a handy-sized product carrier of roughly 50,000 deadweight tons, as being highly militarily useful. Whether or not that vessel can find a ready charter market at prices that you would like to see moneys flowing into the revolving fund, that's a question.

I think in truth you can charter those ships. I think a mix of vessels is what you would want to build.

Mr. CARNEY. But you would not see any problem designing mutually compatible vessels with the first $850 million?

Mr. RICE. No. We do not see that at all. I think the preference of the Navy will be for the class of ship that their most recent study has found to be the most necessary to add to the fleet. When they re-do their dry bulk study in another 6 months, if they do, they will find the dry bulk ship is now in greatest demand. That's what is going to happen.

Mr. CARNEY. It's 9 months, not 6 months. It's about every year. Thank you.

Mr. BENNETT. Thank you very much. I don't think there is anybody else to inquire here, so we will now go to Mr. Amoss of Lykes Brothers Steamship Co.

Mr. HAGGETT. Thank you, Mr. Chairman.

Mr. BENNETT. Thank you. You made a very fine presentation. I appreciate it.

Good to have you, Mr. Amoss.

Mr. AMOSS. I welcome being here, sir.

Mr. BENNETT. Proceed as you wish.

Mr. AMOSS. Mr. Chairman, I am going to introduce my written statement, which is relatively short, and only read portions of it that I think are pertinent.

Mr. BENNETT. The whole thing will be put in the record, and you can proceed.

STATEMENT OF W. JAMES AMOSS, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF LYKES BROTHERS STEAMSHIP CO., INC.

Mr. AMOSS. Thank you, sir. My name is W.J. Amoss, Jr. I am chairman and chief executive officer of the Lykes Brothers Steamship Co. of New Orleans, LA. Lykes also is a member of the Council of American Flagship Operators, which includes American President Lines, Farrell Lines, the United States Lines, and Prudential Lines, and I have been requested to inform the committee that all of the members of the Council of American Flagship Operators support the concept of build and charter as a badly needed new maritime program.

I will speak, however, today for Lykes only because I want to be free to answer any questions without concern about implying those answers for all members of the CASO.

Lykes I should say is the largest American flag operator of liner vessels in foreign trade. We presently operate 32 American flag liner vessels, and we are, incidentally, building 6 new large container ships in Japan because we can't build them in the United States and operate them in our trades, and we regret that very much.

Our operations span most of the world, largely from the Gulf of Mexico ports. Thus it is of particular interest to Lykes as a large operator with trades running in all directions—the transatlantic, transpacific and the north-south trades—to present testimony on the three bills—H.R. 3798, H.R. 4136, and 4146.

As presently proposed, these three bills contain certain prohibiting limitations that we believe will seriously inhibit the interests of a large segment of the existing U.S. liner companies in participating, and I am noting here that I refer exclusively to vessels in the dry cargo liner service, which are generally regarded as highly necessary vessels for national defense and resupply in wartime; particularly the vessels that we would refer to are the container vessels, the barge carriers, the roll-on/roll-off vessels, and specialized vessel types that have heavy lift equipment that are desirable military auxiliaries.

In the bill as proposed, section 1403 would prohibit the payment of operating differential subsidy for the operation of vessels constructed under the military revolving fund. Now we think that is a shot in the foot for this bill because it limits or eliminates a large segment of our existing liner industry, virtually all of which is subsidized, from participating in this bill, and we don't really understand the necessity for it or the reasoning for it.

The Government has always embraced the idea that liner operators should be able to buy their ships at world market because obviously if they can't, they can't compete, and it is an internationally competitive field, and that they should be able to operate at equal cost at sea, not on the U.S. side but at sea with their foreign competition. That is imbedded in the Merchant Marine Act and the whole concept of the Merchant Marine Act was either to provide a subsidy or is now to release vessel operators to build ships foreign in order to be competitive, so we urge that this particular section be removed from the bill.

We think that there are many reasons for this, but not the least of which is that if we wish this fund to be an evergreen fund, that the broadest possible constituency be permitted to compete for it.

Section 1406, which is the section that has an income recapture provision, is one that we do not understand.

Mr. Bennett. I'm going to have to turn the chairmanship over to somebody else because I have a previous appointment.

I appreciate your fine testimony. I will read what I haven't heard.

Mr. BUSTAMANTE [presiding]. You may proceed.

Mr. AMOSS. Thank you. Section 1406, which has a concept of income recapture, is one that used to be in the Merchant Marine Act and under old subsidy contracts and was removed in the amendments to the Merchant Marine Act of 1970. Both the administration and the Congress at that time recognized that recapture / simply placed another competitive burden on the American operator that did not exist in the world for his foreign competition, and it is a simplistic idea that has great appeal from that point of view, but in actuality the administration of it is difficult at best and there is a certain inequality in it when you simply recapture profits but you don't share losses when there are losses, and in ship operation today, losses are quite the order of the game. I think that you ought to rethink that provision.

Section 1408 provides that all charterers under this program purchase insurance in amounts and in a form and from companies specified by the Secretary of the Navy.

This leaves the operator to the tender mercies of the Secretary who may require insurance well in excess of that normally carried by commercial operators on similar vessels, and it seems to us that if this is so, then that extra expense should be for the Secretary's account.

Section 1408 further provides in time of national emergency the Secretary may terminate charters without cost to the United States. This seems unduly harsh because if a national emergency arose, an operator might be required to unload commercial cargo short of his destination in order to make a ship available quickly.

In addition, the requisition of one or all of the ships will disrupt an operator's commercial service, and all of this overhead will follow on no revenue and make it impossible for him to meet his contractual commitments. So, either of these eventualities are an extreme hardship and makes a program less attractive and will deter companies from participating in it.

Now in the Merchant Marine Act there is recognition under section 902 that the Government pay just compensation when it takes a privately owned vessel in time of emergency, and it is our strong recommendation that the requisition provision in this bill include a provision for just compensation.

Section 1409 limits the use of vessels built under the bill in either the transpacific or transatlantic dry cargo line of service for a 10-year period unless these vessels are required to replace existing vessels under an operating differential subsidy contract. Since these vessels presently are prohibited from being operated under an operating differential subsidy contract, it seems rather remarkable that this language would be included in the bill.

Furthermore, those who operate in the transatlantic and transpacific trade can testify that the competition is so fierce, overtonnaging is so great, that it is hardly likely that an operator under an operating differential subsidy contract is really going to have an interest in buying or chartering vessels for these trades, and I submit that this provision doesn't really make a lot of sense.

If these suggested changes are reviewed and adopted, they will in my opinion strengthen this bill and make it an important basis for revitalizing the private American shipbuilding industry. It will assist private American merchant marine companies who have been hard pressed to accumulate capital for the replacement of their aging and in many cases technologically and energywise obsolete tonnage, and it will be a very great service to the merchant marine.

I thank you very much.

[The statement of Mr. Amoss follows:]

PREPARED STATEMENT OF W. JAMES AMOSS, JR.

My name is W. J. Amoss, Jr. I am Chairman and Chief Executive Officer of Lykes Bros. Steamship Co., Inc. ("Lykes") of New Orleans, Louisiana.

Lykes Bros. Steamship Co. is a member of the Council of American-Flag Ship Operators, which also includes American President Lines, Ltd.; Farrell Lines, Inc.; Prudential Lines, Inc.; and United States Lines, Inc. I have been requested to inform the Committee that all of the members of CASO support the concept of build and charter as one element of a badly needed new national maritime program.

Lykes Bros. Steamship Company currently operates 32 American Flag Ships engaged in the carriage of liner cargoes from ports in the Gulf of Mexico to South American, Africa, Asia, The Mediterranean Sea and North Europe; from the U.S. West Coast to Asia; from the U.S. South Atlantic to the Mediterranean; and from Great Lakes Ports, during the shipping season, to Mediterranean, Red Sea and Indian Ocean ports. Lykes is the largest operator of American flag ships in our foreign commerce. Thus, it is of particular interest to Lykes to present testimony on H.R. 3798, H.R. 4136 and H.R. 4146, bills to provide for the construction in private American shipyards of merchant vessels which would be available for sale or charter to qualified citizens of the United States at world price levels for operation in the foreign commerce of the United States.

Since the language of H.R. 3798 has been incorporated, with minor changes in the other two bills, I will key my remarks to the identical section by section numbering system in H.R. 4136 and H.R. 4146.

As presently proposed, all three bills contain certain prohibitions and limitations that we believe will seriously inhibit the interest of a large segment of the existing U.S. liner companies. It should be noted that vessels which have the highest potential for national defense purposes will include liner vessels with certain features such as cargo unloading gear and container, barge carrying and breakbulk cargo capacities. We do not presume that tankers and other specialized vessel types which may be desirable as military auxiliaries would not be considered under these proposals; however, our testimony is confined to the dry cargo liner segment of the maritime industry.

Section 1403 would prohibit the payment of operating differential subsidy for the operation of vessels constructed under the military revolving fund. This prohibition will eliminate the interest of subsidized operators in chartering or purchasing such vessels. The reason for such limitation is not clear since it fails to recognize the need for an American flag operator to operate competitively against his cheaper foreign flag competition in international commerce. Of perhaps more direct interest to the Navy, the elimination of subsidized operators will result in less competition to buy or charter vessels constructed under these bills reducing possibly to absurd levels the amount of charter hire or the purchase price that might be competitively offered for the operation of such vessels. This, in turn, will detract from the regeneration of the fund in a commercial evergreen manner. It is also noted that Section 1402(c) requires the Secretary to charge not less than the cost of a similar vessel constructed in a foreign yard. Congress has in the past permitted the construction of vessels in foreign yards for subsidized service and the Administration presently has submitted a bill to again permit foreign built vessels to be operated in subsidized service which is precisely what would result if Section 1403 were removed. It is, therefore, urged that Section 1403 be eliminated in order to provide a substantial potential market for the sale or charter of those vessels that may be created under the build and charter program.

Section 1406 revives a concept of income recapture which was originally part of the operating differential subsidy system. The concept of recapture was eliminated from the subsidy system in 1970. The reason for this was recognition by both the Administration and the Congress that recapture simply placed another competitive burden on American carriers operating in international commerce. One imagines that this simple idea has appeal as a modest proposal but in practical terms its threat will be reflected as a detriment to the pricing of sales or charters again affecting the fund as an evergreen piece of maritime legislation. It will require the setting of standards, controls and administration relating to accounting on an annual basis of specific vessels as opposed to company or profit center accounting and represents one more regulatory incursion in the private operation of ships that ought to be eliminated. If it remains then the same spirit that motivated recapture of profit should extend the obligation under Section 1406 to the sharing of one half the net voyage losses in excess of ten per centum per annum.

Section 1408(1) provides that all charterers under this program must purchase insurance in amounts and in a form and from companies specified by the Secretary of the Navy. If the Secretary, for any reason, requires insurance in excess of that normally carried by U.S. flag commercial operators on similar vessels, the extra expense should be for the Secretary's account.

Section 1408(3) provides that in time of national emergency the Secretary may terminate charters "without cost to the United States". This seems unduly harsh because if a national emergency arose suddenly an operator might be required to unload commercial cargo short of its destination in order to quickly make a ship available. In addition, the requisition of one or more ships would disrupt the operator's commercial service and make it impossible for him to meet contractual commitments. Either of these eventualities could be extremely costly. This will make the program less attractive and deter companies from participating in it.

Section 902 of the Merchant Marine Act of 1936 provides that the Government should pay "just compensation" when it takes a privately owned vessel in time of emergency. It also contains language to prevent windfall profits to the operator because of the emergency. While the amount of "just compensation" might be less under these bills because the chartered vessels would be owned by the Government, we believe that the principle of "just compensation" is sound and should be incorporated in these bills.

Section 1409 limits the use of vessels built under this bill in either the transpacific or transatlantic dry cargo liner service for a ten year period unless these vessels are required to replace existing vessels under an operating differential subsidy contract. This language can be read [illegible] prohibit use of these vessels to almost any area except Canada and South America. I believe that the language was only intended to apply to trades between the United States and Europe and the United States and major Pacific trading partners such as Hong Kong, Japan, Korea. In any case, the language should be clarified. Assuming that I am correct and the language is only intended to apply to the high volume container trades, I submit that the rates and conditions in these trades, which must have prompted this limitation, are such that it is unlikely that an ODS operator will have an interest in obtaining a vessel at world market prices only to be forced to operate against foreign competition without the benefit of operating differential subsidy.

These suggested changes, if adopted, will in my opinion strengthen the bills and make them an important basis for revitalizing the private American shipbuilding industry and the private American merchant marine while accomplishing the needed goal of creating new vessels maintained in active commercial service with broad capabilities to serve as naval and military auxiliaries in time of war or national emergency.

We urge that other essential elements of a program, including the right for ODS contractors to acquire ships on the world market, be addressed by the Congress in this session.

Mr. Bustamante. Mr. Amoss, what is your feeling about an operator building ships on speculation?

Mr. Amoss. In the line of business an operator would build for a specific trade and he would introduce into that ship the features that are necessary for that trade, such things as special types of handling gear. Because of the conditions that one experiences in this trade, and generally speaking, a liner operator would hesitate to build ships under speculation unless he can plan from the beginning to put it in a specific trade.

Mr. Bustamante. OK, sir. Mr. Carney.

Mr. Carney. Do we find ourselves perhaps having a situation, having the chicken before the egg or something of that nature with speculating, or do you believe that we would be best served by just building the ships and worrying about the contracts later?

Mr. **Amoss**. I certainly side with those who think that the ships should be able to be developed and presented as a program by a user and a shipyard because I think that if you build a ship with concepts which would probably largely be shipyard concept and Navy concept, you are leaving out an essential ingredient, and that is the requirements of the user.

I think this program should not be limited. Perhaps if no one comes forward and there is a necessity to have some ships built, then that should not be prevented from happening, but I think it is far better to be able to have conceived plans in which an owner or operator and charterer have been able to put the real commercial needs into a ship and the Navy has been able to put on top of that what they consider the real national defense needs, and then the ship should be built. And all through that building period the owner should as he always does be able to supervise the construction and carry out, that the requirements he has are adequately met and all the changes that occur during construction should be ones in which the owner participates.

Mr. **Carney**. I can understand the benefit of having a state-of-the-art vessel in the Ready Reserve Force, but one thing you do lose if that were to happen, and that is you don't have crewing available. You don't have people who are utilizing their skills on an everyday basis so they are capable of carrying out their jobs, and I would hope that we could make sure that the hand fits the glove all the way around and it would be done in a cooperative fashion, so the taxpayer would get the maximum benefit, and to me that would be a ship that is utilized to its most proficient level in commercial endeavors and being on the ready for rapid deployment for military purposes, and that way we would be best served.

With that I come back to you and ask the same question that I asked of the two panelists before you, and that is what applications do you see as the most favorable to the dual purpose vessel, dual purpose being commercial and military?

Mr. **Amoss**. Commercial and military capability—let me first make a comment about building ships and putting them in, directly from the builder in the Ready Reserve. That is not the end of the cost by any means. It costs about $1 million a year to maintain a ship in the Ready Reserve, so on top of the moneys that you expend to build the ship, you have the annual upkeep that is absolutely out of the taxpayers' pocket, and that is just the annual average expenditure and does not include exercising and all of the things that you should have.

Furthermore, a ship that is running and maintained as it must be is in a lot better condition to respond promptly, and I am speaking now from the machinery point of view, not the manning point of view. The condition of the machinery—people who know the ship and can operate it in its fullest capabilities than a ship that is broken out with a bunch of new assembled people in a ready reserve position, so I do want to comment about that issue because it seems like it might be costless to build it for the ongoing cost and put it in the reserve fleet, and it isn't at all.

The other question you asked is what would I consider as an operator the proper configuration of a vessel to meld commercial features with national defense features? And it seems to me that a vessel that has a minimum speed because the Navy wants a certain speed as a national defense feature, and generally that has been recognized as about 18 knots is a desirable speed, and that is also a desirable liner commercial speed, 18 and above; I think the vessel must have broad capabilities, not merely a vessel that handles only one type of cargo but an ability to transform, one that can carry containers or can carry vehicles or can carry outsize cargo or can carry break bulk in whatever adaptation you might have, and there are a number of features that, a number of configurations that do that.

And finally, it has to be self-sustaining, be able to remove the cargo with its own gear rather than be able to depend upon shoreside gear.

Now what this comes down to in a commercial application is that these requirements are frequently requirements in the underdeveloped world which is still a significant segment of our international commerce, the so-called north-south trade to South America, to Africa, to the Middle East, to the Indian subcontinent—all make these kinds of demands as well.

Mr. **Bustamante**. Mr. Bateman.

Mr. **Bateman**. Thank you, Mr. Chairman. I would just like to commend Mr. Amoss for his testimony. I think it has been very helpful to the committee and especially his focusing on what I think we on the committee and staff need to do if we hopefully move forward to a markup of the bill, and that is address the question of seeing that there is no excessive insurance requirement that can be proposed under that language as well as the just compensation in the event that the charter must be cancelled or the ship is reclaimed for military purpose.

Certainly we don't want the United States saddled with excessive costs, but certainly I don't think this is something that the then operator should be saddled with as opposed to reasonable cost being deferred by the United States as a part of the governmental function and operation that that assumes, so I thank you very much. Your testimony has been very helpful.

Mr. **Bustamante**. Mr. Amoss, thank you very much. The committee will now recognize, and I will call them jointly, Mr. DeFries and Mr. Drozak. They will be our next witnesses.

STATEMENT OF MARIO C. WHITE, MARINE ENGINEERS BENEFICIAL ASSOCIATION, DISTRICT 1, AFL-CIO

Mr. **White**. Thank you very much. My name is Mario White. I am the secretary-treasurer of MEBA, District One, standing in for our president, Mr. DeFries today. He is very busy today.

Mr. **Bustamante**. Welcome.

Mr. **White**. MEBA, D-1 appreciates this opportunity to testify. I will submit Mr. DeFries' testimony for the record. What I will try to do is give you some of the highlights.

Mr. **Bustamante**. Without objection.

Mr. **White**. I would like first to say that the MEBA is very much in favor of build and charter legislation. We have gone over the bills extensively and for the most part we favor them.

However, there are a few things that MEBA D-1 would like to point out that might help the subcommittee formulate a final bill.

The most important thing to the maritime industry is cargo. Without cargo, shipping is not a viable business. Our problem lies in that there are just too many ships chasing too little cargo.

If we look back to the 1950's, there was a build and charter program—the mariner program—was very successful. We would like to go on the record to say that it has been proven that build and charter legislation can be as successful as it was with the mariner program.

The way things are going today with ships getting bigger and crews getting smaller, we are running into highly technical aspects of vessel operation. Therefore, it is very important, that we keep a cadre of people who will be able to run these vessels. Build and charter gives us that opportunity.

MEBA D-1 would also like to say that if a build and charter program gets off the ground, it is necessary to take these vessels and put them to work. We can't have them sit idle and/or go into the Ready Reserve Force. These vessels are the new tonnage that we need to help our shipping companies compete on the world market. We should make sure that these vessels are not laid up. They have to be able to operate.

When we talk about these new vessels, we have to concentrate on the fact that we need more cargo for them. We don't want these ships to compete with vessels that are already on line. We have to find other ways of getting additional cargo for our industry.

MEBA D-1 is very much in favor of UNCTAD and/or bilateral agreements, or any way that the Government can reserve more cargo by expanding our cargo preference laws. In some way we have got to create more cargo to run these new ships as well as for the ships that we already have in the fleet.

We do have some cargo provided by the Jones Act and some of our vital cargo preference laws. They have been able to sustain us to a certain extent.

I'm sorry for taking notes and so forth. I'm trying to——

Mr. BUSTAMANTE. We appreciate that you're a pinchhitter, so we understand.

Mr. WHITE. Another very important thing that we should look at is the need to have the whole maritime industry involved in formulating the design of the build and charter vessels.

If the Navy decides to take advantage of the present legislation and presents its plans for the construction of these vessels, I think you are going to find that we are going to have very useful Naval auxiliary vessels. But as far as using them in an economic, viable, and commercial fashion I think you are going to find the ships to be terribly lacking. They are just not going to be what we need for our industry.

These vessels have got to be used to help support our shrinking industry. I suggest that with the whole industry participating, we will come up with a viable plan for constructing these vessels so as to serve both ends—the Navy and the U.S. merchant marine.

Examples of that include putting equipment, such as sea sheds and flat racks on commercial vessels to help the Navy use them.

Another thing we would suggest with the legislation is the possibility of taking some portion of the funding, possibly a quarter of it, and use it to build passenger cruise vessels. That industry is very significant. We have very few, if any, U.S. passenger cruise vessels. I believe that an infusion of this type of money could get that segment of the industry off the ground again. I think there is a big market out there.

I believe that with Jones Act protection that you are going to find a lot of business people looking at this type of operation. They understand that by one action they can make a dollar, help the country and help the Navy in time of emergency.

I think basically I have covered everything that is in the statement.

[The statement of Mr. DeFries follows:]

PREPARED STATEMENT OF C.E. DEFRIES

Mr. Chairman, I am pleased to testify today before this subcommittee as President of the National Marine Engineers' Beneficial Association which represents more than ten thousand American merchant marine officers.

I want to devote the bulk of my attention to H.R. 4136 and H.R. 4146 which are identical except for Section 1410 in H.R. 4136 which deals with the MarAd study that I will address later. Most of my comments about these bills apply as well to H.R. 3798 which is similar to an earlier version of Senator Stevens' S. 1885 on the same subject of build-and-charter.

Let me say at the beginning, Mr. Chairman, that I support wholeheartedly the concept of build-and-charter. It was enormously successful with the Mariner program in the 1950s, and it can be successful today. It is the right way to go if we are serious as a nation about having a merchant fleet as a viable defense asset. It does no good to have a fleet of merchant vessels tied up in reserve in Beaumont Bay or on the James River if we do not have the crews to sail them. Modern cargo vessels are highly technical and extremely complex. You cannot just run out onto the streets and police up untrained men and women to run a modern ship anymore than you can do so with pilots and mechanics to fly and service a C-5A. With our enormous commercial air industry, however, we have the kind of personnel and expertise base so that you could stockpile cargo planes and break them out on relatively short notice. We do not have anywhere near that kind of personnel base in our commercial maritime industry and what base we do have is dwindling fast as the fleet shrinks, crew sizes get smaller, and trained mariners retire.

So build-and-charter provides a way to address this problem by creating operating vessels, not a mothball fleet. However, it is not enough to create such operating vessels. These vessels must be commercially viable—or as much as we can make them—lest the program become an intolerable drain on the Treasury.

This leads to what I believe is the single most important weakness of these pieces of legislation—they are silent on the subject of cargo, silent on how we will put cargo on the ships that are built. Without a new source of cargo for these vessels, we will simply have more ships trying to carry the same amount of cargo, and that would be a disaster for our fleet.

The world is already suffering from a massive shipping depression brought on by overtonnaging in the world market. This overtonnaging situation basically has far too many vessels chasing far too few cargoes. The situation is so bad that more than 60 million deadweight tons of merchant ships are laid up around the world—some three times the tonnage of our entire fleet.

In the face of this situation, the U.S.-flag fleet has been fortunate that the Jones Act and vital cargo preference laws have served to help our fleet during a time of cutthroat competition brought on by world oversupply. But a new element of American vessels competing for the same reserved cargoes could put much of the fleet at risk unless the introduction of these vessels is accompanied by measures to generate increased cargo.

Now there are several ways to generate this cargo: increased government cargo allocation, adoption of the UNCTAD Code of Conduct for Liner Conferences, or bilateral shipping agreements. I personally favor bilaterals, included as part of a national trade policy to promote American exports and services. By contrast, the Administration for five years has steadfastly opposed all of these cargo allocation measures. It has even gone so far as actually to attempt to undermine existing preference laws concerning agricultural and defense cargoes.

I believe that any legislation to create a build-and-charter program must have, as an essential component, a cargo enhancement policy to go with it. The inclusion of such a policy would not only help widen support within our industry, but it would do much to create the national maritime policy that has been so clearly absent during the last five years. Indeed, the fact that we are here today discussing these bills testifies to the absence of any coherent policy—a policy that ought to have come from the other end of Pennsylvania Avenue a long, long time ago.

In addition to a cargo policy, any build-and-charter program must ensure that the vessels themselves are economically viable in the world trades. In this respect, having only the Navy determine the vessels to be built through such a program will probably lead to very fine naval auxiliaries which are unsuited for any commercial trade in which the U.S.-flag is viable. I am not reassured by the inclusion of "consultation" with MarAd that was added in H.R. 4136 and H.R. 4146. I would recommend instead that the Secretary of Transportation or the Maritime Administrator be formally included in vessel selection—as well as a strong measure of industry input. Vessels selected should be designed so they can be converted to military use in short order, if need be, through devices such as flat racks, sea sheds, or Arapaho. But we should not attempt to field a fleet of perfect, militarily-useful vessels—such as Roll-on/Roll-off vessels—that cannot come close to making a commercial go of it under the American flag. The result would be a fleet that cannot be sustained over time, and we will only prove once more that the "best" is the enemy of the "good."

These have been some general thoughts on improvements to these build-and-charter proposals. There are also a number of smaller but still important technical problems that ought to be resolved or clarified.

For example, clear-cut definitions in any legislation promoting our maritime industry are vital. Yet, in these bills, "citizens" are able to negotiate charters from our government for vessels constructed under this program. "Citizens" may even buy these vessels. But what qualifies one for citizenship—the bills simply do not explain. Can a foreign shipping company set up a U.S. subsidiary here, hire an American president and qualify for citizenship, and gain profit through the use of American taxpayer dollars? This is not the bills' intention—but unless words like "citizen" are clearly defined, intentions will certainly fall prey to abuse.

Furthermore, these bills appear to have unnecessary and questionable restrictions in them. For instance, these bills do not, with limited exceptions, allow build-and-charter vessels to receive operating-differential subsidies. When the industry had construction-differential subsidies, ODS was a natural complement. Why is ODS excluded under this legislation?

These bills also forbid the operation of these build-and-charter vessels in two of America's most important trades except under certain limited circumstances—the transpacific and transatlantic general dry cargo liner service. Again, such a restriction will drive these vessels further away from a necessary goal of this program—"commercial viability."

I would also note that if this program is intended to help our ailing shipbuilding industry it seems desirable that some provision be made to ensure that the most depressed shipyards get a fair share of the program's benefits. This may mean making exceptions to the competitive bidding process to prevent rich shipyards from getting richer and the poor shipyards from getting poorer. If we are to strengthen and preserve our broad national shipyard mobilization base, which is certainly a key goal of this legislation, then it will do no good to allocate contracts for these ships without taking this point into consideration.

I recognize, however, that despite the points I have raised, this program may go forward. If this is the case, I would urge that the Subcommittee consider two additional changes to these bills that could be incorporated relatively simply.

First, I would recommend that a portion of the build-and-charter funds—such as one-fourth—be set aside to promote the building of passenger cruise vessels in U.S. yards for the Jones Act trades. While these vessels would be of obvious military utility in certain scenarios, funding a portion of their construction costs would be the quickest and surest way to establish a U.S.-built, U.S.-flag domestic cruise industry. This is one area of the maritime industry where the "cargo" is there but not the vessels. There clearly is interest, among investors as well as operators, in building vessels in U.S. yards for this trade, but most of the proposals have come close but then failed due to their inability to obtain full financing. Because the Jones Act trades are a special market where U.S.-built vessels would only compete with other U.S.-built vessels, the amount of Federal financing would not have to be the dominant percentage. I do not have a formula for what percentage should be paid, but I am certain that an equitable, cost-effective percentage of Federal financing, when added to private investment interest that is already there, would be enough to put these projects over the top and get them started.

The Jones Act cruise ship industry offers great potential for U.S. yards, for the U.S. steel that would go into these vessels, for U.S. workers here at home, and for U.S. mariners. A portion of the funds in this program, so directed, could get this industry started. It would enable our industry to join together to build a uniquely U.S. segment of the world cruise trade. And with that objective, the Cunard cruise-ship reflagging controversy could be behind us, having served at least the constructive purpose of opening our eyes to an industry heretofore sitting almost unnoticed under our noses.

My second suggested change concerns Section 1410 of H.R. 4136. This calls for a study of the build-and-charter program in this proposal as well as other promotional programs in the jurisdiction of MarAd to "determine their potential application to the coastwise trades."

I would strongly urge that this study be broadened to include a comprehensive look at the entire Jones Act and ways in which it might be strengthened and changed—if necessary—to build up our fleet. This study could include everything called for in Section 1410, except that I believe that the study should be done by an independent contract group reporting directly to the Congress but charged to seek out the views of all segments of our industry. The Jones Act is one of the last remaining bulwarks of our industry. As I have said elsewhere, I do not believe every one of its words is necessarily chiseled forever in stone, but if changes are to be made, they should be fair, balanced, and above all, comprehensive.

Thank you for providing me this opportunity to testify on these bills. I would be happy to answer any questions.

Mr. BUSTAMANTE. Mr. Drozak.

Mr. DROZAK. Thank you, Mr. Chairman. I would like to submit my full statement to the record.

Mr. BUSTAMANTE. Without objection.

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION

Mr. DROZAK. I would like to make a couple of comments. First, I want to commend this committee and the chairman for holding these oversight hearings, and I certainly concur with this committee's position this morning.

I think for the first time in my history of being around Congress that it has finally woken up to a serious situation particularly in the shipbuilding industry and the maritime industry as a whole.

I was disappointed with the Navy's position this morning of not supporting a Build and Charter Program, and I have to agree with what my good friend, the Congresswoman from Maryland, who stated what Secretary Lehman had said a few days ago. I also heard that same statement back in October and so somebody must be confused or the signals are not getting across each other's desk. I would certainly hope that that matter would be straightened out. Either they do support it or they don't support it.

Also what bothers me is the administration's simplistic position which they have stated for the past 6 years that the answer to revitalizing our American merchant marine is to get competitive.

Well, how do you get competitive with Taiwanese wages at 50 cents a day and the American standard of living as high as it is, or compare the material cost in this country versus government subsidized payments in these countries. It just doesn't make common sense, and I think it is about time that we wake up to what is really happening to us.

Let me just point out a couple of things that have happened since this administration has been in. We have, in order to try to be competitive in the international field, reduced operating cost on board those ships by some 40 percent. We have not taken a wage increase in almost 4 years. Now we are being asked by our operators in order would we consider another 10 percent reduction in crew cost to be competitive?

Now where does it stop? And what do we do about it? Either we are going to have an American merchant marine employing highly trained, qualified people, or we are not going to have one. And if we are going to have it, then Congress must act to see that sufficient funds are made available so that there are minimum standards and there are conditions and decent wages that these people will make both in the shipyards and also on board the ships there.

We talked about the 60 ships to the 100 ships in the Ready Reserve fleet. Well, I hate to sit here and tell you, but I may as well tell you, if you told us to break out 60 ships tomorrow, you wouldn't get the crews. We don't have them. Even if we did find the crews, they would not necessarily represent the right men for the job because, as has been testified there before, you have got highly automated, high technology onboard ships today. it would certainly be a far cry from our merchant marine that was so vital in earlier national emergencies. Those seamen or the reserves that they are talking about using in wartime are not qualified people. It would take a massive training to train these people.

We have a school in Piney Point, MD, that will continue upgrading our seamen in order to meet the high technology changes. I would invite this subcommittee and other committees to come and visit our facility and the other maritime schools and see what we are having to do to just keep up with the high technology today. I am sure you would understand why I believe it is foolish for someone to sit here and say that we would get the reserve forces to sail those ships. Well, if it ever happened, I think we would be in bad shape.

I have nothing against reserves. A large percentage of our membership are Navy veterans or reservists, but if you are not actively employed, just like the shipyard worker, you lose your skills. In an industry that is constantly changing, even a break in service of 6 months or a year would require that a returning seaman be put through a refresher course and maybe he can qualify to operate the new ship out there today.

It's disappointing to sit here and hear these type of statements made by professionals who have and are supposed to have national security at their fingertips. We are down to some 328 active ships in the private fleet today. Most of those ships are 15 years old, if not older. The only thing that this administration is saying we do is build foreign. That's the way to replace your fleet.

They oppose a Build and Charter Program which is meaningful and supportive of our national security. They don't talk about the issue of where do you get skilled people? The issue as far as this administration is concerned, is plain to me. They don't need in their view, an American merchant marine. That's just the plain and simple truth in my opinion, and I think it is up to this body and others to do something about it.

One of our big problems we face is competing out there today against Evergreen Lines. These liner operators can tell you Evergreen is knocking their heads off out there. Why? Because their ships were built in Taiwan. Their crews are Taiwanese, and they are government subsidized. How do you compete?

Our secretary talked about the cost and reduction of crews and total crew costs. I would like for him to remind himself that an admiral in the Navy today—no offense to him—is making, benefits and all, a hundred thousand dollars a year. The same admiral in the Korean Navy is making around $12,000 a year, so what are we talking about?

I would hope that this committee will pass this bill. Good, bad or indifferent, it is a beginning, because the money is there. It would help the shipyards. It would help us. It would help us in crewing and keeping some of these skilled people out on board these ships that are necessary and needed.

If we don't, I can say this to you—I don't think we will be here 3 years from now to talk about American merchant marine. That's how serious it is.

I would ask your support, your cooperation. You certainly have ours, and I support this bill totally. I do ask that some consideration be given relative to a combining build foreign with the build and charter program. I do this because, one, of the Administration's support for foreign building; secondly, on the basis of the ship operators' plea that they can't compete unless they build ships foreign, so let's couple it together: building one ship in the United States while allowing them to build three foreign. That's a fair deal, and I think it's a reasonable deal.

Thank you, Mr. Chairman.

[The statement of Mr. Drozak follows:]

PREPARED STATEMENT OF FRANK DROZAK

Mr. Chairman, on behalf of the Seafarers International Union [SIU], I would like to express our appreciation in appearing before the Subcommittee to present our views on the build and charter proposals contained in H.R. 3798, H.R. 4136, and H.R. 4146. The increasing interest in establishing a federal build and charter vessel construction program clearly demonstrates the continuing efforts of the Congress and this committee to preserve the U.S. merchant marine and enhance the benefits it provides to our Nation and its security. I sense that after many long years of debate and uncertainty concerning the future of U.S. maritime and its relationship to national defense, a consensus may finally be emerging which will permit the enactment of a positive and broad-based promotional initiative that will boost the health of the American shipbuilding industry, expand employment opportunities for U.S. shipyard workers and seafaring personnel, and significantly strengthen the direct defense utility and capacity of the U.S. fleet.

Already, a major hurdle towards this goal has been overcome. As this committee is well aware, initial funding for a vessel build and charter program was last year legislated into law. Now, proper authorizing legislation to implement the program itself and authorize expenditures from the Mariner Fund must be enacted. It is important that this be done quickly. However, it must not be done recklessly. The Subcommittee has an opportunity to fashion a program that will provide the broadest benefit to U.S. national security and the entire maritime industry, including both domestic shipbuilders and vessel operators. It is my hope that the Subcommittee, the Congress, and the entire U.S. maritime industry will work together for the adoption of a balanced bill, so that a beneficial and enduring program can be forged. I personally assure you that the SIU stands committed to this process, and will work diligently and faithfully for the enactment of a favorable program.

Mr. Chairman, three specific build and charter proposals are before the Subcommittee today. Each of these proposals would be highly beneficial in several important respects:

(1) They would provide business to commercial U.S. shipyards which, because of extensive foreign government subsidization and cut-rate labor available in overseas yards, have seen few new buildings since 1980. Build and charter would provide critical commercial business opportunities to preserve America's essential shipbuilding mobilization base from further decline;

(2) They would generate the construction of new U.S.-flag tonnage. This tonnage would be constructed with defense features built into the vessels, and could be tailored to fit into the Nation's foreign trades. The addition of these vessels to the active fleet would heighten America's security by increasing the number of militarily-useful vessels that are ready at a moment's notice to serve as a defense auxiliary;

(3) The cost to the government of implementing a build and charter program would be small in comparison to the economic and national security benefits it would provide. While the federal government would incur some initial outlays to implement the program, these costs in time would be returned to the Treasury from the sale or charter of the ships, the corporate tax revenues of those companies that build and operate the ships, as well as the payroll taxes of shipyard workers and shipboard personnel; and

(4) The program would provide new employment opportunities for American shipyard workers and the pool of seafaring personnel who are needed to man the vessels required to satisfy our Nation's strategic sealift requirements.

We believe that these proposals are a major step in the right direction in strengthening both America's maritime industry and national security. However, we feel that they still leave a number of questions unanswered and several issues unaddressed. While the scope of the proposals are broad and would facilitate the construction of a wide range of merchant vessels, and while requirements are included that the Administrator of MarAd provide consultation to the program—both provisos that would significantly enhance the program's commercial considerations—the proposals lack elements which could further benefit the overall industry and strengthen the competitiveness of the U.S. fleet versus foreign operators.

To date, the build and charter bills which have been proposed are primarily intended to assist the shipbuilding mobilization base. While they would also provide a source of new vessels for the U.S. fleet, this capacity is limited by federal budget constraints and the program's emphasis toward vessels with a high degree of direct military utility. It is not likely that the vessels the Defense Department would be seeking under build and charter would be the type needed for the commercial trades. If the program were to be expanded, however, to incorporate additional elements which enhance the commercial competitiveness of the U.S. fleet while simultaneously generating work for the shipbuilding base, it could be built into a broader and more effective measure.

A more effective policy, which would benefit both shipyards and ship operators and provide more vessels for national defense, would be to combine build and charter with authority to build abroad. While build and charter would provide business to U.S. shipyards to preserve our crucial domestic shipbuilding mobilization base, foreign build would allow American operators to obtain needed tonnage on equal terms as foreign operators. Foreign build would not only facilitate the construction of commercial vessels which would not likely be built under build and charter, it would promote the acquisition of vessels powered by slow-speed diesel engines, a technology which increases operating efficiency and reduces fuel costs, and enhance the responsiveness and competitiveness of U.S. operators through quicker delivery of vessels. While these vessels may not have a high or immediate military-utility, they would provide an additional source of active U.S. vessels for U.S. sealift needs and would provide important job opportunities to expand and keep active the pool of skilled seafarers needed for defense sealift.

Foreign build authority could also benefit the U.S. shipbuilding mobilization base through a stipulation that operators who build foreign must also construct vessels in U.S. yards. I would suggest, Mr. Chairman, that build-foreign authority be based on a three-for-one formula, whereby an operator may build three vessels abroad for every one built domestically. This requirement would compliment the intent of the build and charter program by providing a steady amount of supplemental business for U.S. yards, business beyond that provided by build and charter alone. Variations of this concept have been considered in the past, and I believe that another review of this proposal may be in order.

I should note that my support for foreign build is conditioned upon the common agreement of existing U.S. liner operators who currently are meeting to develop an alternative promotional strategy, and upon a requirement that all liner operators be treated equally under such a program. Assuming this, the SIU firmly believes that expanding these build and charter proposals to incorporate foreign build would act to more thoroughly revitalize the U.S. merchant marine and enhance its military utility better than any other proposal short of guaranteeing additional cargo. Business for domestic shipyards would be generated, and U.S. operators would be brought onto a level playing field with their foreign counterparts by being provided an efficient and effective means of modernizing the fleet.

I encourage the Subcommittee to fully consider this proposal as a viable option to assisting these critical American industries; it is imperative that a major effort to boost the U.S. merchant marine be implemented before the industry declines still further. A build and charter program such as provided these bills, coupled with the proposal I have described, would initiate such a revitalization.

Thank you.

Mr. BUSTAMANTE. Thank you. Mr. Bateman.

Mr. BATEMAN. Thank you, Mr. Chairman. I'm impressed with the testimony of both witnesses. I think they help us make the vital point that we are interested in—their being an American merchant marine to even talk about in a very short period of time.

This Congress is going to have to face up to a very significant challenge. I am intrigued—and I don't know whether either of you have it or not. I would ask that staff see if it is available from some source. I am very intrigued as to which of our trading partners have adopted or followed the UNCTAD code and which of our trading partners have insisted upon either with us or with other trading partners bilateral agreements with reserve percentages of cargo to be hauled to their particular fleet.

There is certainly much to be said that you are not going to have any long-range capability of sustaining an American merchant marine if more ships are going to be chasing less cargo. Cargo, really if there were enough of that, many of our problems would indeed solve themselves, so I would like to see as much data as we could have available.

Do you have some?

Mr. WHITE. We would be more than happy to submit those figures for the record. We will send them over to you.

Mr. BATEMAN. Thank you. That's all I have, Mr. Chairman.

Mr. BUSTAMANTE. Mr. Carney.

Mr. CARNEY. Thank you. I beg your pardon, sir, but I did miss your name.

Mr. WHITE. Mario White.

Mr. CARNEY. Mr. White—thank you. I'm good at "hey you's", but that's not appropriate.

Mr. White, in your testimony you said first you would recommend a portion of build and charter fund such as one-fourth be set aside for the promotion of the building of passenger cruise vessels in the U.S. yards for the Jones Act trading.

I can appreciate that. I think there is a military application for passenger vessels, and I think we need them. We have a limited amount of money, but now have available $800-plus million. Some people think eight ships. Others think as many as 20 ships, but whether it is 8 or 20 it is still not enough, and I am just wondering why your organization has opposed Cunard vessels when you recognize the necessity for charter vessels?

I mean the national defense requirement right now is so crucial in that area, I am perplexed as to why you have fought the Merchant Marine Committee for so many years.

Mr. **Bateman**. Mr. Chairman, I'm not sure my colleague hasn't stopped preaching and started meddling.

Mr. **Bustamante**. I thought he was going to propose that we take Marcos' assets and get the money.

Mr. **Carney**. I was just curious. I'm glad to see now that they recognize it. That's all. Listen, I am very, very sympathetic. I'm standing here trying to support this bill. Don't misunderstand me, you know, but we need vessels and we need crews and I'm just glad that you have recognized half of it.

It would be nice if we put the two Cunard ships and then took two—that's all you would probably get because passenger vessels are rather expensive. We build two more, right, so we have six passenger vessels. We have increased the fleet 200-fold or 200 percent. I think that might be a good idea. We certainly could use them for national defense purposes, and I would just hope that you would think about that for a little while.

Mr. **White**. Well, all I can say, Congressman, is that there are problems and we would like to think——

Mr. **Carney**. What are the problems? I don't understand what's wrong with that.

Mr. **White**. We believe very firmly that Mr. Hadley, who is trying to get his program off the ground, could very well be——

Mr. **Carney**. I'm concerned about the national defense. I'm not concerned about people's programs. I am concerned about the national defense. I would hope you would recognize that from my viewpoint anyway, but I just bring that up for a point. I thought perhaps maybe your organization has seen some light. I would hope it would be.

What is important here, we can build ships all we want but if we don't have the crews, we're going to be in an awful lot of trouble, and we have to have American-flag ships out on the seas continually if we are going to maintain crews.

I was as appalled as you were, Mr. Drozak, when the answer was that we are going to use the Navy Reserve. I always thought the Navy Reserve was the Navy Reserve, and what are we going to do for our attrition requirement in the Navy and what are we going to do to rapidly deploy our fleet, the Navy's gray bottom fleet that is in the reserves, if we are going to utilize the reserves for this?

We cannot do that, and I think he was totally incorrect in saying we were going to do that. We don't have the manpower to do it. We have to have merchant seamen available and readily available and merchant seamen that have a high proficiency and a high currency in training you might want to say, and I think that it is not going to happen unless we do something similar to this type of legislation and to change the attitude downtown.

I hate to say it coming from this side of the aisle. In fact, one of my colleagues yelled we don't even have to take on these guys. You and Bateman are doing a good enough job for us.

We are frustrated. I appreciate both of you coming before us today and giving your testimony, and in a cooperative spirit, and those statistics that you gave, Mr. Drozak, about the reduction of cost and not taking raises in 4 years and now going back in for another go-around of a 10-percent reduction, that should be an indication enough to the administration that one side of this equation is looking at it cooperatively, trying to find an answer to it.

I just hope that this is the first ring of the bell and it will continue to ring until someone wakes up and makes a determination that we have to do something, we have to change the level of the playing field in the merchant marine or we are not going to have a merchant marine.

I appreciate both your testimonies today, and I would hope that we could be successful. This could be a starting point to doing something constructive in this area.

Mr. Chairman, I yield back.

Mr. **Drozak**. If I may say, Mr. Chairman, Congressman Carney, the real key in the answer to this American merchant marine is cargo. There is no question about it in my mind. I don't care what we do or how much the Government may subsidize the fleet. Our competitors are going to get that much more subsidy. We tried that and it hasn't worked. The true answer is cargo. That's a bitter word, cargo preference or whatever you want to say—creation of jobs. Certainly, cargo means creation of jobs for the European nations or the Japanese countries.

Mr. **Carney**. I call it playing on a level playing field. Everybody else is doing it.

Mr. **Drozak**. That's like the Chicago Bears against the New England Patriots.

Mr. **Carney**. I thought you were going to say the Giants. You and I were getting along real well. I thought you were going to say Giants. You wouldn't be in trouble.

Mr. **Drozak**. But the point is if we could get bilateral shipping agreements with our trading partners we would be in much better condition. Earlier, Congressman Bateman had a question about countries who are interested in bilateral shipping agreements. I believe some 28 countries have requested in the last few years to enter into bilateral shipping agreements with the United States, yet nothing has been done, and in fact, our good State Department discourages it.

As to the question of the European nations and the UNCTAD liner cargo code certainly there are quite a few countries that have signed it, I think England and the United States are the only ones that have not agreed on it. From what our people have told us who deal with international affairs through the International Transport Workers Federation, the NATO bill UNCTAD Liner Code has been so watered down that even if it were put into effect, it really won't have any effect.

Mr. **Bustamante**. Mr. Carney.

Mr. **Carney**. I forgot the thing that I thought was most glaring. Mr. Drozak said it, and I would like to ask Mr. White as well. Both of you are so deeply involved in manpower on our oceans. You said in your statement that you don't believe we could put 60 crews together today?

Mr. **Drozak**. That's right—qualified crews. That's absolutely right.

Mr. **Carney**. Well, going back to my book—and we might be accomplishing something here. I don't like to be sarcastic, but we are getting down to only about 60 boats that are available in the Reserves, unfortunately, but we are looking to have 116 vessels in the Ready Reserve and 180 in the NDRF.

Mr. **Drozak**. Right.

Mr. **Carney**. And you are saying we can only put together 60 qualified crews today?

Mr. **Drozak**. Let me give you an example. You have got 15,000 deep sea jobs out there in the deep sea fleet, roughly 15,000. I believe the Maritime Administration's report as of December 31, and I could be wrong, show there are roughly 35,000 seamen to fill those jobs. It takes a ratio of 2 to 1 to man a ship because one guy is on ship and one is on the shore.

Now if you take the 15,000 on shore and put them on these ships. What extra manpower do you have? You can't expect seamen on either active or reserve fleet merchant ships to stay forever. They have got to get off. There has got to be some relief for them, and this is a crucial situation.

I have been to these maritime industry manpower meetings where they say we have 75,000 seamen's documents out there. You may have that many seaman papers or licenses out there, but most of them haven't been to sea in 40 years. Today, if a person hasn't been to sea in the last year, forget him. He's lost, and so that becomes a crucial situation. They don't want to level with you with the facts, and we have the facts.

Mr. **Carney**. Mr. Chairman, I think what both these witnesses have stated is incredible, and I think particularly as it has to do with the Seapower Subcommittee as opposed to the Merchant Marine Subcommittee—not that we are not concerned with the national defense, but there is a glaring problem with our national defense if we are told as a Congress that we have 116 vessels in the Ready Reserve and 180 vessels in the national defense reserve fleet, and yet we only have 60 crews.

Mr. **Bustamante**. You might not be able to put those together.

Mr. **Carney**. And that might be an optimistic figure there, and I think this is something that we should be dealing with immediately. You know, these hearings are a start, but this is an investigation we should have. We should bring over the people from the Sealift Command and say "Well, can you say any different?" I think it would behoove us because we are in terrible shape if the few ships that we have, we don't have crews for them.

Mr. **Bustamante**. I agree with Jim.

Mr. **Carney**. I think that's a very strong point you both bring up and it reinforces the fact that we have to do this not with just manpower and American ships and cargo preference. We have to do it all together.

Mr. **Drozak**. Absolutely; absolutely.

Mr. **Carney**. If we don't have ships on the ocean in the commercial industry, forget it.

Thank you, Mr. Chairman.

Mr. **Bustamante**. Thank you very much. Mr. Cavaiola, do you have a question for Congressman Dyson?

Mr. **Cavaiola**. Yes, sir. Thank you. Mr. Drozak, Mr. Dyson had to leave, but before he left he asked me to ask a question of you which I think fits in here very well. How long in your estimation would it take after mobilization to train the necessary numbers of merchant seamen?

Mr. **Drozak**. To get a qualified AB, it takes you 3 years, from ground one. Then in order to move him up to a licensed, it takes him another 6 months after that. He has to go to school for 6 months to get his license. That's a third engineer, mate or assistant, so you are talking about 3½ years. He has got to get 3 years of sea time which may take 6 calendar years to acquire.

What has happened in the industry today, because of automation, we have seen ships come on line that have reduced crews from 42 men down to 21 men. Today's ships have no apprentice rating at all to bring in new manpower. So you are sitting there with an aging membership in most places and no flexibility to move anybody in.

During the Korean war, World War II, and the Vietnam war, you could strip eight or nine guys off of a ship and that ship could still maneuver easily. The additional personnel that were carried on those ships for the purpose of loading and discharging the cargos and maintaining the ships while at sea could be transferred to other ships to permit their operation. This was how we were able to do it in the Korean and Vietnam war's. We simply moved a half a dozen guys off a ship, another half a dozen guys off that ship and brought them together on a third ship. We would worry about how we discharge it when we arrived at our destination.

You don't have that today because you only have a basic operating crew on board. A ship's crew numbers only 21 people, and they are talking about as few as 18 if automation keeps going the way it is.

The one thing that the Navy has done that I recognize, and I certainly appreciate on the SL–7's, and some of these other ships, they are utilizing more ratings because of the need to work the cargo and maintain the vessel.

Another point to consider is what do you use these build and charter ships for after they are operational. Well, there is an awful lot of American-owned feeder service in Europe, the Mediterranean, and the Far East. The build and charter ships could be built for feeder service because the Navy requires cranes on them. They require roll on and roll off. They don't require them nor does feeder service require a ship like the United States Line's *New York* class ship, or the D–9 that Sea-Land has. The feeder ships are a smaller type of ship, and it would seem to me that this is where the Build and Charter Program would fit in perfectly with the present operators. How much better off could the Navy be than to have a militarily useful vessel crewed by American Seamen in the Mediterranean and/or in Southeast Asia. The Navy would have a ship to move right away; while the feeder service wouldn't hurt the line operators as some of them have said.

Now if you take the liner off, it would have an impact on Jim Amoss of Lykes Steamship. They may disagree with me, but I do know a little bit about this industry, too. That's why we have arguments backwards and forwards, but there is a place that these could be used. There is a place where the product tankers could be used, too.

I think the bill is a good bill. Sure, there is difference of opinion about any bill that we come up with. I don't care what it is. We are not going to all agree on it, but I support the bill because I think it is good. Forget us. It's good for national security, and that's what bothers me right now.

Look at the Philippines. Look at what is happening in South America, and in the Middle East. If we have to move two divisions, we may get them where they have to go but after we get them there, what are we going to do with these young men standing there? Unless we have adequate sealift, we are going to leave them over there with nothing to protect themselves.

Sure, the Army and the Air Force have said we could get the troops there, but our problem is what about the material? And that's the problem that we are confronted with, and no one except this committee and the Merchant Marine Committee has recognized this sad state of affairs. I appreciate that you have recognized the seriousness of this situation and would hope that whether the administration supports this bill or not, that you take the issue and go with it. It's for your benefit and the country's benefit. For national security reasons the public should be interested in it.

[The following questions were submitted to Hon. Everett Pyatt to be answered for the record:]

Mr. BENNETT. 1. Can Navy's sealift requirements be satisfied on its current course? If yes, how long?

2. If sealift requirements are not being satisfied, what is the Navy's plan to meet it?

ANSWER. We believe that our current sealift programs will satisfy sealift requirements by 1990. The DoD Sealift Study recommended increasing the Ready Reserve Force (RRF) dry cargo goal from 61 ships to 100 ships (including 12 TACS crane ships). Our procurements to date have brought the RRF dry cargo segment to over 70 ships. Procurements in Fiscal Years 1987-90 should meet the goal. The DoD Sealift Tanker Study recommended that we add 30 Handy Size Tanker Equivalents (about 750,000 DWT) to the RRF. Our top priority in future RRF procurements will be tankers.

Mr. BENNETT. Secretary Pyatt, the subcommittee has received testimony from maritime labor union officials that there are sufficient merchant ship crews in excess of operating ships to man only 60 ships of the Ready Reserve Fleet and National Defense Reserve Fleet. What is the Navy's plan for manning these ships in time of national emergency?

ANSWER. Historically, civilian mariners have been relied upon to man all merchant ships in time of war or national emergency. For the present, Navy plans to continue to rely on the pool of civilian mariners that will be available. The current active U.S.-flag fleet supports the employment of about 13,800 seafarers. This, in turn, generates an active manpower pool of about 29,000 mariners. Those who are not actively sailing, i.e., between sailing tours, are a pool of 15,200 who would be available to man the Ready Reserve Force (RRF) and other surge shipping. We are evaluating various alternatives of meeting future manning requirements.

Mr. HARTNETT. What is the total strategic sealift goal for the Ready Reserve fleet? When is that goal expected to be met?

ANSWER. Ready Reserve Force Goals: Dry cargo ships, 100 ships; clean product tankers, 46 HSTE. HSTE=Handy size tanker equivalent (200,000 barrels). We plan to meet these goals by 1990.

Mr. HARTNETT. Can the Navy achieve this goal only through the purchase of existing tonnage with funds appropriated in the strategic sealift request?

ANSWER. At the moment, procurement of used ships is the most cost-effective way to achieve the goals. Used ships cost 10-20 percent of new construction. If more ships were added to the commercial fleet, the Ready Reserve Force goals would, of course, decline.

Mr. HARTNETT. Would the use of prior-year Navy funds for a "Mariner-type" shipbuilding plan help accelerate the achievement of the Navy's goal for strategic sealift assets?

ANSWER. Additional ships constructed in a "Mariner-type" program would accelerate achievement of our strategic sealift asset goals.

Mr. HARTNETT. Are there some elements of the shipbuilding industrial base which could be aided by such a shipbuilding program? Is the maintenance of this base critical to national security requirements?

ANSWER. Our studies of the shipbuilding industrial base show that it will be adequate through 1990 for mobilization tasks without shipbuilding orders over and above those in the Navy Five-Year Shipbuilding Plan.

Mr. HARTNETT. If the Navy admits that they have a shortfall in Ready Reserve Sealift assets, and continues to request funds to buy tonnage, and if the use of $852M in a "Mariner-type" program seems to make good sense and provides needed assets, why has the Navy been so reluctant to support the program before the Armed Services Committees?

ANSWER. We believe that current sealift programs in place will allow us to realize our goals by 1990.

Mr. CARNEY. A 1985 study shows 600 ships available through NATO to satisfy sealift requirements. Is this figure accurate?

ANSWER. The NATO allies have earmarked 600 dry cargo ships for the lift of U.S. reinforcements to the NATO theater in a NATO contingency. Of the 600 earmarked ships, we expect to utilize about 400 under the terms of the NATO agreement.

Mr. CARNEY. What effect has the recent loss of 4M plus tons of the U.S. controlled fleet in the past few months had on Navy sealift capability?

ANSWER. At this point, we cannot say that changes in the Effective U.S. Control (EUSC) fleet have affected sealift capability. We re-assess sealift capability periodically. The next assessment will begin shortly.

Mr. BUSTAMANTE. Gentlemen, thank you for your excellent testimony. We appreciate that, and this subcommittee will adjourn, subject to the call of the Chair.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

APPENDIX

PREPARED STATEMENT OF HON. WALTER B. JONES, CHAIRMAN, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, thank you for this opportunity to present my views concerning legislation to implement a Build and Charter Shipbuilding program, including H.R. 4146 which I authored to authorize the establishment of a Military Auxiliary Revolving Fund within the Treasury.

Mr. Chairman, the shipyards in the United States are in a terrible state. Many shipyards have gone out of business in the past 5 years, and many more will go out of business in the near future if we fail to stem the tide. This loss will have a significant adverse impact on out national defense due to the inability of the United States to construct naval and support vessels in a time of war or national emergency. Clearly, something must be done to insure the maintenance of a shipyard mobilization base. We cannot allow our private shipyards to disappear as has happened in Sweden, where, in a short span of 10 years, they went from having one of the world's largest shipbuilding industries to absolutely none.

Last year, $852 million was set aside in the Continuing Resolution for FY 1986 in order to fund a build and charter program. H.R.4146 is the implementing legislation for this fund. This legislation has three major goals:

1. To construct vessels in U.S. shipyards.
2. To construct vessels capable of serving as naval and military auxiliaries in time of war or national emergency.
3. To construct commercially viable vessels, able to compete in the foreign commerce of the United States.

These goals are accomplished by using the Navy's expertise in shipbuilding and contracting used to build a commercially viable vessel in a U.S. shipyard, and then to charter or sell that vessel by competitive bid to the private sector for operation in the foreign commerce.

Interest has already been expressed by the private sector for this legislation in order to construct T-5 tankers and car carriers. I firmly believe that a build and charter program can enable us to build militarily useful and commercially viable ships in U.S. yards that would not be built there without this legislation. Let's take car carriers as an example. Currently there are no car carriers in the U.S. fleet. Less than 1% of the cars imported from Japan are brought on U.S. vessels—and the small number that are imported on U.S. vessels are brought in containers, which is very uneconomical. One of the main reasons for this is simple—when a Japanese exporter won't give you a contract for more than a 1 to 3 year period, it is very difficult to get financing from a bank.

A build and charter program will enable U.S. carriers to get a foot into this market, while at the same time building vessels that could transport everything from Jeeps to tanks in time of a war or national emergency.

However, as always, we must be very careful when the Government enters into an area regulated in large part by free market forces. Many private operators have millions of dollars invested in their companies. The Government, through the charter and sale of vessels built under this legislation, cannot undercut their investment. Safeguards must be included to insure that the charter and sale rates of these vessels do not drop an operators cost below that of a person that had these vessels built through private financing and construction contracts.

Mr. Chairman, this legislation may not be a cure-all for the ills facing the U.S. shipbuilding industry, but it certainly will help maintain this much needed defense base until a long-time solution is found.

Therefore, Mr. Chairman, I urge your Committee to act favorably on a build and charter program, and I look forward to working with you on this legislation which is so very vital to our nation's shipyards.

STATEMENT OF HON. MARIO BIAGGI, CHAIRMAN, SUBCOMMITTEE ON MERCHANT MARINE

Mr. Chairman, I appreciate the opportunity to appear before your subcommittee to testify on behalf of commercial build and charter legislation. The bills under consideration would, with minor differences, authorize the Secretary of the Navy to implement such a program through the establishment of a military auxiliary revolving fund within the Treasury of the United States. This is for the purpose of constructing defense-relevant merchant vessels in domestic shipyards for charter to U.S. citizens for operation under U.S. registry in foreign trade.

Consideration of this legislation is prompted by the set aside in the fiscal year 1986 continuing resolution of $852,100,000 of the $4.4 billion in accrued savings in the naval shipbuilding construction account. However, obligation of these moneys requires the enactment of an authorization measure defining the scope and structure of a commercial build and charter program, and establishing the revolving fund.

I have always supported, in concept, the use of build and charter authority, similar to that contained in title VII of the Merchant Marine Act, as an alternative maritime promotional policy. A build and charter program would be consistent with our national defense objectives of maintaining a healthy merchant marine.

Indicative of my consistent support of this concept, I was successful in convincing the leadership of the House Appropriations Committee to agree to the set aside of moneys to fund this program. Following discussions with Senator Stevens, the initiator of this effort, I agreed to introduce companion authorizing legislation in the House.

I am not wedded to any particular version of this legislation. In fact, I share many of your reservations concerning the need to modify and improve it, if possible, prior to floor consideration by the House. However, both the House and Senate begin their consideration from a common point of departure in the legislative process. This assures the opportunity for adequate and timely consideration of the legislation by all the committees of jurisdiction.

In particular, I look forward to working closely with you and your committee for the duration of this process. We share a growing sense of frustration over the lack of progress in developing a comprehensive maritime policy and strategy. My concern is heightened by the accelerated decline in the maritime industry over the last several years. In many ways I read the growing support for this legislation as a reaction to this sense of frustration and inaction.

From the favorable reception this legislation is now receiving, it is obvious that it enjoys bipartisan support among members and among a significant cross-section of the maritime community. These two conditions have been noticeably absent in the consideration of other promotional legislation before my subcommittee. This concept is clearly not the alpha and the omega for this industry's problems. Indeed, in this legislative climate, no single measure can make such a claim.

I hope you will explore several issues that have been raised and perhaps should be addressed in the course of improving the legislation. These include:

First, whether the legislation should provide adequate selection criteria or guidance for the Secretary of the Navy to ensure that defense-relevant and commercially viable vessels are constructed under this program. In this respect, I believe the Maritime Administration has a proper supporting role to play that should be spelled out in the legislation.

Second, whether the legislation should incorporate a requirement for the provision of adequate assurance of vessel commercial employment prior to initiation of construction. This could be evidenced through operator commitment, shipper credit support, including the potential of Navy Military Sealift Command charter arrangements, or through outside equity participation.

Third, whether the financial structure of the revolving fund should be self-liquidating or self-sustaining, and what form should build and charter or sale arrangements take in order to balance the objectives of constructing the optimal number of vessels with maximum recoupment of revolving fund capital investment.

Fourth, whether the legislation should incorporate adequate incentives for productivity improvement in vessel design, construction, and operation.

In terms of a realistic program goal and strategy, I believe we must recognize that at most a commercial build and charter program can support the modest series construction of one or more generic design vessels, perhaps a clean product tanker and a versatile dry-cargo design. I would also advocate as a tangible demonstration of interest in promoting program cost-effectiveness that those advanced ship construction techniques developed under similar Navy build and charter programs should be encouraged in the legislation. Those techniques employed the use of satellite shipyards to construct vessel modules, reducing ship construction cost and time of delivery. This approach would enable the largest number of individual yards to participate in this program.

In summary, I believe the inherent logic of embarking on a commercial build and charter program is in the selection of dual purpose vessels and having them operate in commercial service with trained citizen crews available for requisitioning in time of war or national emergency. In my judgment, no one advocating this program wants to build vessels only to have them laid up in the reserve fleet except as a very last resort. No proponent of this concept knowingly desires to repeat some of the mistakes made in the construction-differential subsidy program resulting in the construction of vessels that were commercially noncompetitive from the date of delivery. No one wants to repeat the acknowledged mistakes made in the title XI Ship Financing Program demonstrated in a lack of adequate market analysis prior to the approval of loan guarantees for economically questionable projects.

Mr. Chairman, once again I applaud your leadership in scheduling this hearing on this important legislative initiative and commend your dedicated efforts in fashioning and implementing a maritime strategy for the United States.

PREPARED STATEMENT OF HON. JOHN R. MCKERNAN, JR., A REPRESENTATIVE FROM MAINE

Mr. Chairman, I appreciate the opportunity to participate in this hearing on the Build and Charter concept. I believe the real issue before the Subcommittee today is two-fold. First, the Subcommittee should be concerned with developing a realistic and comprehensive assessment of the military sealift requirements for this nation under any scenario. I am concerned that irrefutable trends in our commercial maritime trade and those of our European trading partners point to a potentially serious shortfall in both dry and wet cargo assets. After all, during the height of the Korean War, 1,100 U.S.-flag ships were involved in supplying U.S. and U.N. forces fighting in that conflict. During Vietnam, over 700 vessels were engaged in the resupply effort. Those totals were over and above what was continuing to carry both our domestic and international trade. Today, a major global conflict would involve an intensity far greater than that of Korea or Vietnam, yet no one in the Department of Defense is talking about the need for well over 1,100 cargo vessels, and in Korea and Vietnam we did not face a submarine threat against the Soviet Union's 300-plus attack submarine fleet. A sealift effort as we would require to meet our global commitments, may require several thousand cargo ships.

In everything I have read to date, the total number of assets presented by DOD, including the ships of our Allies and the effective U.S.-Controlled Fleet, may not even add up to 900 vessels. That assumes that all U.S. international trade as well as Jones Act trade would be taken over by foreign-flag ships under contract. Mr. Chairman, the use of foreign-flag, foreign-crewed vessels to carry our own domestic cargo during a crisis is an unacceptable risk unto itself, and an alternative that I do not feel should be a part of our strategic planning.

The second issue is that once the Subcommittee determines to its satisfaction what extent we have a crises in sealift, it must decide how best to address the problem. Right now, the DOD is admitting that there are sealift problems by the very fact that, over the last few years, funds have been requested in the strategic sealift line of the SCN budget to buy existing vessels for the RRF. However, this year's request for $28 million will hardly reverse any negative trends. The question before the Subcommittee here is whether the Congress should continue to appropriate large sums of money to buy existing excess tonnage from the market place or authorize a ship construction program as outlined in the "Mariner" fund concept.

I believe that both programs are needed because neither one, attempted alone, can provide the necessary ships. Regardless of how the Subcommittee decides to address the legislation before it, it is extremely important that you first determine exactly what we are up against with respect to sealift requirements.

Thank you for your consideration.

PREPARED STATEMENT OF JAMES P. MCGREGOR, VICE PRESIDENT, OCEAN SHIPHOLDINGS, INC., HOUSTON, TX

Mr. Chairman, Members of the Subcommittee:

I am James P. McGregor, vice president, Corporate Development and Marketing, Ocean Shipholdings, Inc., Houston, Texas.

We appreciate your invitation to submit written comments and answer questions concerning H.R. 3798, H.R. 4136, and H.R. 4146, the "Build and Charter" proposals.

Ocean Shipholdings is an operator of U.S. flag petroleum product tankers. As a ship operator, we believe that economically viable ship projects will be presented to the Secretary of Navy upon enactment of "Build and Charter" legislation. In determining the future commercial utility of vessels constructed under the fund, it is important to consider the dynamics of the shipping market in which the vessels will trade. Specifically, we see many opportunities for U.S. flag petroleum product tankers constructed with the most efficient propulsion technology available today to compete in future U.S. foreign trade. Also, we believe it is possible, under this program, for a vessel to effectively compete in that foreign market without receiving any direct operating subsidy.

In order to clarify our position regarding the legislation, I would like to take this opportunity to describe our primary business interests.

In 1982, one of our subsidiary companies was awarded a long term "Build and Charter" contract by the U.S. Navy, Military Sealift Command, for five 30,000 deadweight ton petroleum product tankers, commonly referred by the Navy as T-5 class tankers. Four of these tankers already have been delivered and one is still under construction at Tampa Shipyards, Inc., a subsidiary of The American Ship Building Company. The vessels will be used by the Military Sealift Command to carry DOD cargoes in worldwide trade. We charter those tankers to Military Sealift Command under time charter contracts which provide that we crew, provision, insure, maintain and generally manage those vessels. We are pleased to report that those tankers are operating efficiently for the Navy.

We also operate four 35,000 deadweight ton U.S. flag tankers for an independent shipowner. These vessels were built with the help of construction differential subsidy and receive an operating subsidy while in the foreign trades. Three of these ships are presently on one year charters to the Navy.

Ocean Shipholdings, Inc., supports the concept of establishing a revolving-type fund as a vehicle for providing the maritime industry with the means to construct, and place in operation, commercial vessels which could also be used by the U.S. government as military auxiliaries in time of war or national emergency. The House legislation has the potential to enable the construction of new merchant vessels without impinging on any existing owners or operators of U.S. flag vessels. We see this as an important feature for the proposed "Build and Charter" program.

I will now address three often asked questions regarding the proposed "Build and Charter" program: (1) the appropriate role of the Maritime administration in the consultative process; (2) the existence of over-tonnaging in categories of vessels proposed to be constructed; and (3) the economic feasibility of chartering in light of specific limitations on markets, subsidy, and charter fees imposed by the House legislation. I will attempt to answer these questions in that order.

The Maritime administration through its various functional offices has experienced personnel who can assist in : (1) the determination of foreign ship construction costs; (2) the analysis of the economic impact on other U.S. operators of introducing new tonnage into existing shipping market segments; (3) the soundness of companies bidding on the construction, purchase or charter of these ships; and (4) the specification and commercial impact of vessel design features required by the Navy for these ships to be considered useful military auxiliaries. I do not mean this to be an exhaustive list of the capabilities of the Maritime administration (MarAd); obviously, it is not. Rather, these are the specific areas in which we believe it will be able to assist the Navy in the administration of the House legislation.

We have carefully considered the process by which our company will be able to build and purchase (or charter) petroleum product tankers using the proposed fund. It is clear that any ships built to trade in foreign commerce will have to be compatible with the requirements of those trade routes. For certain types of vessels the installation of sealift enhancement features required by the Navy for military auxiliary vessels should be coordinated with MarAd to ensure that the vessels will retain their commercial utility. However, we urge the subcommittee to allow, in the final legislation, for the Secretary of the Navy to have the authority to make the final decisions concerning the design and types of vessels considered under this program.

The existence of over-tonnaging in the categories of vessels to be constructed, and the third question regarding economic feasibility are closely related.

It is a fact that, in the market for foreign trading tankers at this time, a U.S. flag vessel has an operating cost handicap compared to a foreign crewed vessel. This results primarily from crew cost differentials. However, this operating cost handicap can be overcome rather quickly through increases in the world market tanker charter rates.

I will now address the economic viability of tankers constructed under the proposed "Build and Charter" program. For the purposes of an example, I will use approximations of estimated actual costs to represent a simplified case. These costs typically differ between operators and for different types of vessels.

Let us assume that a 30,000 ton product tanker can be built in a foreign yard today for $20 million. The operating cost differential we will assume to be $2 million per year. If the foreign market could provide the owner with a guaranteed return of his $20 million investment, through a long term charter for the life of the vessel, a ship purchased from the proposed fund by a U.S. operator would have an operating cost handicap, in present value terms of approximately $18 million. I reached this conclusion by discounting, at 10 per cent per year, the $2 million operating cost differential for 25 years. To summarize, if the vessel in our example actually has a $20 million value to a foreign buyer, a vessel purchased from the proposed fund would have only an actual $2 million value.

Another way to view this, is to recognize that a private company interested in chartering a tanker constructed under the "Build and Charter" fund will not in the present market be able to replenish the full $20 million foreign equivalent cost to the fund. If this were possible, we would be seeing U.S. flag tankers constructed in foreign yards.

We must keep in mind that shipping markets are not static and continue to move through normal business cycles. The prudent investor in ships is aware of this cyclical aspect to the market and attempts to capitalize on these cycles. When the market for tankers improves, the charterer may be in a position to pay a higher charter rate for the vessel. For this reason, we fully expect that the Secretary of Navy, in administering the fund, will compare the charterer's offered rate to the Navy's forecast of the market for similar ships. If the Navy determines that the charterer's offer is insufficent to "adequately replenish the fund," but will enable the operator to employ the ship throughout the term of the charter, then I expect the Navy will limit the term of the charter accordingly, in order to reevaluate the market periodically.

Through this process, it is probable that a vessel constructed today would return to the fund its full foreign equivalent costs over the 25 year useful life. So you see that the fund is actually only taken the capital recovery risk off of the shipowner, but has taken the reward commiserate with that risk as well.

In the private sector, businessmen take a certain calculated risk and expect that the reward for taking that risk will somehow be related. Inherent in this risk/reward process is the mechanism which will cause charterers to compete for fund vessels.

In the process of evaluating offers for ships proposed to be built using the fund, we expect that the Navy will also take into consideration the savings it will realize by having one less vessel to maintain in the National Defense Reserve Fleet. This cost to the Navy is roughly $1 million per year which could cover 50 per cent of the operator's cost handicap in the foreign trade.

At this time I would like to address the requirements for the largest charterer of U.S. flag product tankers: the Navy's Military Sealift Command (MSC). Due to the presently depressed U.S. flag tanker industry, the MSC is having to depend on an increasingly obsolete pool of available tankers. Most of these ships are presently over 20 years old and were built with relatively fuel-inefficient steam turbine engines for their main propulsion. The commercial market will not support the construction of newer, more efficient tankers.

We urge the subcommittee to adopt an amendment that will allow flexibility on the part of the Navy to have vessels which are built under this program to be chartered to the Military Sealift Command. While these vessels are under charter to the Navy these vessels should be allowed to trade in the coastwise domestic trades.

In order to protect independent shippers and operators, we also urge the inclusion of an amendment that provides that while fund vessels are on charter to the Navy, and are carrying cargoes in the U.S. foreign trades, the minimum capital charter element be directly related to the owner's capital recovery costs. The operating cost element should be unrestricted to provide the Navy with the most competitive operating economies.

In order to protect the coastwise vessel operators, we would also suggest that the same amendment provide that while the vessel is in the coastwise trades, a minimum capital charter element would be established based upon the actual total cost of the vessel and the operating cost element would again remain unrestricted. This would provide the Navy with the further flexibility to trade the ship anywhere in its supply system while providing a strong incentive to use available tankers which can be offered at lower rates.

Also, we believe that Sec. 1408 (3), in H.R. 4136 and H.R. 4146, should be amended to consider the exposure of an operator that may have rechartered the vessel in the commercial market. It is not reasonable to assume that commercial charters would allow the vessel to be withdrawn without costs. The charterer of a fund vessel may also have to make additional investments in ancillary equipment, hire and train personnel or otherwise enter into financial commitments directly tied to the successful operation of a fund vessel. U.S. laws presently make adequate provisions for the President to requisition U.S. ships.

Our final suggestion is that in determining the "foreign costs" equivalent, the Secretary of Transportation should use the lowest costs available to an independent operator from a recognized and qualified shipyard. The independent operator would not make a decision to purchase a vessel based on any composite price computation. Rather, he would use every incentive-type price program available in the foreign shipbuilding market.

Mr. Chairman, Ocean Shipholdings strongly supports the concept of a "Build and Charter" program outlined in the proposed legislation. We believe, with the incorporation of our suggestions that the "Build and Charter" program will benefit our military and will provide opportunities to further develop the U.S. Merchant Marine industry.

I appreciate the opportunity to submit these written comments for the subcommittee's record, and present Ocean Shipholding's views on this important legislation. I will be happy to answer any questions you or members of the subcommittee might have.

Thank You.

PREPARED STATEMENT OF SEA-LAND CORPORATION

The following comments are submitted by Sea-Land Corporation, parent of the liner carrier Sea-Land Service, Inc. regarding H.R. 3798, H.R. 4136 and H.R. 4146, the three build and charter bills under consideration by the Subcommittee on Seapower and Strategic and Critical Materials.

Sea-Land generally supports the concept of build and charter, and our comments and suggestions are intended to be helpful to the Subcommittee in its efforts to enact such a program. We believe an appropriately drafted build and charter program would clearly benefit all segments of the United States merchant marine industry. It should provide much needed vessel construction work for U.S. shipyards, guarantee the availability of militarily useful commercial vessels to supplement the National Defense Reserve Fleet and its Ready Reserve Force, provide employment to U.S. merchant seamen, and provide operators in the U.S. foreign commerce with a source of competitively priced, commercially competitive U.S.-built vessels.

Preliminarily, two points should be noted. First, while Sea-Land supports the approach to build and charter taken in these bills, we believe that H.R. 4136 and H.R. 4146, which are nearly identical, are preferable to H.R. 3798. This is so because of the provisions in the latter two bills which are aimed at better protecting the Government's investment in the vessels built under the program. Second, in these comments we will not discuss each provision of these three bills. Rather, we will address a few proposed amendments which Sea-Land would ask the Subcommittee to consider. We are also attaching to these comments a redraft of H.R. 4146 with the revisions superimposed. Sea-Land believes that a build and charter program in this form will be beneficial to both the United States shipyard and merchant marine industries.

Section 1403 of H.R. 4136 and H.R. 4146, like Section 1401(g) of H.R. 3798, provides that charterers or purchasers of vessels constructed pursuant to this program cannot receive ODS for the operation of such vessels. Sea-Land strongly endorses this provision, as well as the requirement of Section 1409 of H.R. 4136 and H.R. 4146 that liner operators may not use these vessels for ten years after their construction, unless the Secretary finds they are required as replacement vessels. Sea-Land would further propose that the ability to charter or purchase such vessels and use them as replacement vessels within the ten year period be available to all liner operators, whether or not they have an ODS contract.

In addition, since these vessels will be ineligible for ODS for each such vessel acquired, a subsidized liner operator's ODS contract should be amended by making proportionate reductions on a vessel productivity basis in the number of subsidized sailings and vessels. For example, if a replacement vessel has twice the cargo carrying capacity and the capability to make twice as many commercial voyages on an annual basis as the vessel to be replaced, then the replacement vessel will equal four replaced vessels. In that case the ODS contract would be amended by reducing the number of subsidized vessels operating in common-carrier service by four, and by appropriate reductions in the number of sailings provided by these four vessels. This amendment would be consistent with the purpose of the 1970 Amendments to the Merchant Marine Act, 1936 of reducing liner operators' reliance on subsidy, and President Reagan's statement of October 15, 1985.

Section 1402(c) of H.R. 4136 and H.R. 4146 and Section 1401(f) of H.R. 3798 provide that the purchase price of the vessels constructed pursuant to this program cannot be less than what would have been the cost of constructing the vessel outside the United States. Since foreign construction costs differ substantially from country to country, these bills should establish a standard to be used to make the requisite cost comparison. That is, the Secretary should be required to determine the estimated foreign construction-cost by reference to foreign shipbuilding centers which, 1) have the ability and experience to construct the proposed vessel, 2) could reasonably assure delivery in accordance with contractual requirements, and 3) are located in countries where a prudent U.S. purchaser would have its vessels constructed.

Section 1405 of H.R. 4136 and H.R. 4146 requires the Secretary to award charters to the highest offeror, and in awarding such charters the Secretary must consider certain responsibility criteria. These criteria are, the charterer's financial resources and credit standing, practical experience in the operation of vessels, and any other factors a prudent businessman would consider. Further, these bills permit the Secretary to reject a bid if the charter hire is considered too low to adequately replenish the Fund.

Sea-Land believes that these provisions, which are not included in H.R. 3798, are very positive elements and would serve to more adequately protect the Government's interest. We would, however, propose two additional provisions. First, there should be a minimum charter price, relating to the usual commercial criteria, which insures the Government a fair return on its investment. Second, the responsibility criteria should be extended to apply to vessel purchasers as well. The application of these criteria to both classes of program participants would promote the sale and charter of these vessels to entities with the experience and capability to assure proper commercial operation of the vessels, and prevent speculation.

It is essential that any build and charter proposal account for the fact that funding will be available only for a limited number of vessels. While these bills empower the Secretary of the Navy to use the Fund for the construction of militarily useful commercial vessels, they do not set forth any other criteria to be used in choosing between proposals to construct different types of vessels. Such a clear statement of priorities is necessary to insure that the vessels constructed will not only be militarily useful, but will also be a positive commercial venture. These standards should encompass the following factors: (1) the military utility of the vessels, (2) the commercial competitiveness of the vessel, (3) the need for the vessel in the trade in which it will be deployed, and (4) the potential for creating overtonnaging in the proposed trade and with respect to vessels of the type proposed.

Section 1409(b) of H.R. 4136 and H.R. 4146 and Section 1401(h)(2) of H.R. 3798 prohibit the use of the vessels constructed under this program in the coastwise and intercoastal trades. Sea-Land believes that this prohibition should be expanded to encompass all of the domestic trades covered by the Jones Act, including the noncontiguous trades. In addition, the authority of the Secretary of Defense in H.R. 4136 and H.R. 4146, and the authority of the Secretary of the Navy in H.R. 3798 to waive the Jones Act prohibition should be deleted. There should be no exception to the Jones Act trade prohibition short of a Presidential declaration of national emergency. Operators in the domestic trades have long relied upon the Government's commitment that vessels constructed with its shipbuilding assistance would not be allowed to operate in the Jones Act trade. Domestic operators would be placed at a severe competitive disadvantage if such new Government-funded vessels were permitted to enter the Jones Act trade.

Sea-Land also favors the approach of H.R. 4146 which, unlike H.R. 4136, does not require the Maritime Administrator to conduct a study of the workings of the Jones Act. Since such a study would undoubtedly serve as the basis for future legislative proposals, if undertaken at all, Sea-Land believes that it should be conducted by Congress itself.

In concluding, two additional points require

99TH CONGRESS
2nd SESSION

H. R. 4146

To authorize the establishment of a Military Auxiliary Revolving Fund within the Treasury of the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

A BILL

To authorize the establishment of a Military Auxiliary Revolving Fund within the Treasury of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Merchant Marine Act, 1936 (46 App. U.S.C. 1101 et seq.), is amended by adding the following new title:

"TITLE XIV - BUILD AND CHARTER

"SEC. 1401.(a) There is established in the Treasury of the United States a fund, to be known as the 'Merchant Ship Revolving Fund' (hereinafter referred to as the 'Fund'). The Fund shall consist of -

"(1) all moneys appropriated to the Fund;

"(2) all moneys received for the charter or sale of merchant vessels constructed under this section; and

"(3) all moneys received from repayment of construction differential subsidies awarded under title V of this Act; and

"(4) any other moneys as may be made available for the purposes of the Fund.

"(b)(1) The Fund shall be administered by the Secretary of the Navy (hereinafter referred to as the 'Secretary') in consultation with the Administrator of the Maritime Administration, and moneys in the Fund shall be used only for the construction in private shipyards in the United States of merchant vessels capable of serving as naval and military auxiliaries in time of war or national emergency.

"(2) For the purposes of this section, 'construction in private shipyards in the United States' means that -

"(A) all major components of the hull and superstructure of the vessel are fabricated in the United States;

"(B) the vessel is assembled entirely in the United States; and

"(C) at least fifty per cent of the cost of all machinery (including propulsion) and components which are not an integral part of the hull or superstructure of the vessel relates to items procured in the United States.

"(c) No contract for the construction of a vessel under this Act shall be made by the Secretary with any private shipbuilder, except after due advertisement and upon sealed competitive bids.

"(d) In making the determination whether to award a contract for the construction of a merchant vessel in a private shipyard under subsection (c) hereof, the Secretary shall take the following into consideration: (1) the military utility of the vessel proposed to be built; (2) the likelihood that the vessel will be competitive in commercial service; (3) the need for the vessel in the trade in which it will be deployed; and (4) the potential for creating overtonnaging in the proposed trade and with respect to vessels of the type proposed.

"SEC. 1402. (a) The Secretary may charter to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this ~~section~~ title for operation in the foreign commerce of the United States after due advertisement and upon competitive bids.

"(b) The Secretary may sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this ~~section~~ title for operation in the foreign commerce of the United States, either to the charterer of any such vessel under an option clause in the charter or, if the vessel is not under charter, after due advertisement and upon competitive bids.

"(c) The price the Secretary shall charge for the purchase of a merchant vessel under subsection (b) of this section shall be not less than the cost the Secretary determines would have been necessary to construct the vessel, not including national defense design features and equipment, outside the United States for delivery to the Secretary at the same time such vessel was delivered to the Secretary less a reasonable depreciation, as determined by the Secretary based on a twenty-five year life of the vessel. The Secretary of Transportation shall recompute such estimated foreign cost annually unless, in the opinion of the Secretary, there has been a significant change in shipbuilding market conditions. The Secretary shall publish notice of an intention to compute or recompute such estimated foreign cost and shall give interested persons, including shipyards and shipowners and associations thereof, an opportunity to file written statements. The Secretary's consideration shall include all such relevant statements, and each determination shall include or be accompanied by a concise explanation of the basis of the determination.

"(d) In awarding contracts for the purchase of vessels, the Secretary shall take into consideration the factors set forth in Section 1405(b), and shall reject a bid for the purchase of a vessel if it is determined that the bidder appears to lack sufficient capital, credit, or experience to successfully operate the vessel, and for any other reason which would cause a prudent businessman to refrain from entering into a transaction involving a large investment of capital.

"SEC. 1403. A citizen of the United States who charters or purchases from the Secretary any merchant vessel constructed under this ~~section~~ title shall not be eligible to receive an operating differential subsidy under title VI of this Act for the operation of any such vessel.

"SEC. 1404. (a) The Secretary shall not charter the Department of the Navy's vessels to private operations except upon competitive sealed bids submitted in strict compliance with all the terms and conditions of a public advertisement soliciting such bids. Each advertisement for bids to construct, charter, or sell the Department of the Navy's vessels shall state the number, type, and militarily useful characteristics of the vessels the Secretary requires, the length of time for which the charter will be given, and all other information the Secretary considers necessary for the information of prospective bidders.

"(b) The Secretary may, and shall announce in any advertisements for bids that the Secretary reserves the right to reject any and all bids submitted. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"SEC. 1405.(a) The Secretary shall award the charter to the bidder proposing to pay the highest monthly charter hire, unless the Secretary shall reject such bid for the reasons set forth in subsection (b) of this section.

"(b) In the awarding of charters, the Secretary shall take into consideration the charterer's financial resources and credit standing, practical experience in the operation of vessels, and any other factors that would be considered by a prudent businessman in entering into a transaction involving a large investment of capital. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"(c) The Secretary -

"(1) may reject the bid if the charter hire is considered too low to replenish adequately the Fund~~, or~~, and shall reject the bid if the charter hire does not insure that the Government recovers at a minimum over the twenty-five year life of the vessel what would have been the cost of constructing the vessel, not including national defense design features and equipment, outside the United States at the time such vessel was delivered to the Secretary, plus a reasonable profit.

"(2)~~may~~ shall reject the bid if it is determined that the bidder appears to lack sufficient capital, credit, or experience to operate successfully the vessel over the period covered by the charter, and for any other reasons which would cause a prudent businessman to refrain from entering into a transaction involving a large investment of capital.

"(d) If the highest bid is rejected, the Secretary may award the charter to the next highest bidder, or may reject all bids and readvertise. All reasons for rejection of any bid, upon request of the bidder, shall be stated to such bidder in writing.

"(e) The Secretary may promulgate such regulations as are considered necessary for the purpose of implementing this section.

"SEC. 1406. In implementing Sections 1402(c) and 1405(c)(1) the Secretary shall, after providing notice and the opportunity for interested parties to submit comments, establish rules concerning the method of determining what would have been the cost of building vessels constructed pursuant to this title outside the United States, and which foreign shipbuilding centers are deemed to furnish a fair and representative example for a determination of the estimated foreign cost of construction of vessels of the type to be constructed. In promulgating such rules, the Secretary shall require the selection of representative foreign shipbuilding centers to take into consideration the following: (1) the center must have the personnel, facilities, and experience necessary to construct the proposed vessel and must be regularly engaged in building vessels of the type to be constructed; (2) the center must be one where a prudent United

States purchaser would have a reasonable assurance of obtaining delivery in accordance with the contractual obligations; and (3) the center must be located in a country where a prudent United States purchaser would be willing to have its vessels constructed.

"SEC. ~~1406~~ 1407.(a) Every charter made by the Secretary pursuant to the provisions of this title shall provide that whenever, at the end of any calendar year subsequent to the execution of such charter, the cumulative net voyage profits (after payment of the charter hire reserved in the charter and payment of the charterer's fair and reasonable overhead expenses applicable to operation of the chartered vessels) exceeds 10 per cent per annum on the charterer's capital necessarily employed in the business of such chartered vessels, the charterer shall pay over to the Secretary as additional charter hire one-half of such cumulative net voyage profit in excess of 10 per cent per annum, except that the cumulative net profit so accounted for shall not be included in any calculation of cumulative net profit in subsequent years.

"(b) Every charter shall contain a definition of the terms "net voyage profit" and "fair and reasonable overhead expenses," and "capital necessarily employed," as such terms are used in subsection (a) of this section, setting forth the formula for determining such profit and overhead expense and capital necessarily employed. Such definitions shall have been approved previously by the Secretary and published in the advertisement for bids for such charter.

"SEC. ~~1407.~~ 1408. Every charterer of the Secretary of the Navy's vessels shall be required to deposit with the Secretary an undertaking with approved sureties as security for the faithful performance of all of the conditions of the charter, including indemnity against liens on the chartered vessels, in such amount as the Secretary shall require.

"SEC. ~~1408~~ 1409. Every charter shall provide that -

"(1) the charterer shall carry on the chartered vessels, at its own expenses, policies of insurance covering all marine and port risks, protection and indemnity risks, and all other hazards and liabilities, in such amounts, in such form, and in such insurance companies as the Secretary shall require and approve, adequate to cover all damages claimed against and losses sustained by the chartered vessels arising during the life of the charter, except that, in accordance with existing law, some or all of such insurance risks may be underwritten by the Secretary;

"(2) the charterer shall at its own expense keep the chartered vessel in good state of repair and in efficient operating condition; and

"(3) whenever the President proclaims that the security of the national defense makes it advisable, or during any national emergency declared by proclamation of the President, the Secretary may terminate the charter without cost to the United States, upon such notice to the charterers as the President or Secretary shall determine.

The need for repairs under paragraph (2) of this section shall be based on the condition of the vessel immediately prior to the charter.

"SEC. ~~1409.~~ 1410.(a) The Secretary shall not charter or sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the trans-Pacific or trans-Atlantic general dry cargo liner service for a ten-year period after construction of such vessel is completed, unless the Secretary finds that any such vessel is -

"(1) required to replace an existing vessel or vessels operated by such a citizen whether or not such existing vessel or vessels are entitled to receive operating-differential subsidy, and the replacement vessel shall be ineligible to receive operating-differential subsidy ~~under an operating differential subsidy contract between the Secretary and such citizen entered into pursuant to title VI of this Act~~; or

"(2) necessary to replace an existing vessel or vessels twenty-five years of age or otherwise commercially obsolete.

"(b) The Secretary shall not charter or sell to a citizen of the United States for documentation under the laws of the United States any merchant vessel constructed under this section for operation in the ~~coastwise or intercoastal~~ trades / encompassed by 46 U.S.C. 883, unless the President declares a national emergency and authorizes such operation.

~~unless the Secretary of Defense directs a waiver of compliance with this section to the extent considered necessary in the interest of national defense, after affording notice and an opportunity to be heard to existing coastwise or intercoastal trade operators.~~

"SEC. 1411. For each vessel sold or chartered to a person or entity which is a party to an operating-differential subsidy contract pursuant to Title VI of this Act the Secretary of Transportation shall amend that operator's operating-differential subsidy contract by reducing or eliminating, as appropriate, the authorized number of subsidized sailings from a base of the actual number of subsidized sailings by service type performed by the operator during the immediately preceding twelve months and reducing the authorized number of subsidized vessels from a base of the number of subsidized vessels by service type actually operated in commercial service under the operating-differential subsidy contract during the immediately preceding twelve months on a vessel productivity basis. In determining productivity and making such amendments the Secretary shall consider the comparative carrying capacity and speed of the vessels purchased or chartered pursuant to this title, as compared to only the vessels which actually operated in commercial service under the operator's operating differential subsidy contract during the 12 month period immediately preceding the amendment of the contract and only to the extent of such operation.

"SEC. ~~1410.~~ 1412 There is authorized to be appropriated to the Fund such amounts as may be necessary to capitalize the Fund."

PREPARED STATEMENT OF H. ALLEN FERNSTROM, PRESIDENT AND CHIEF EXECUTIVE OFFICER, THE AMERICAN BUILDING CO.

Mr. Chairman, Members of the Subcommittee:

I am H. Allen Fernstrom, President and Chief Executive Officer of the American Ship Building Company.

We appreciate the opportunity to present American Ship's views on H.R. 3798, 4136, and 4146, the various "Build and Charter" proposals.

The American Ship Building Company strongly supports legislation to establish a "Mariner Fund" under which modern ships will be built to meet military sealift needs. The Navy will select the types of vessels to be constructed and these vessels will be available for military use.

Mr. Chairman, we hope that our comments and suggestions as to the provisions of this legislation will be of use to the Subcommittee in its efforts to finalize a bill and to achieve the realization of this important program.

The legislation will establish the "Military Auxiliary Revolving Fund" to be administered by the Secretary of the Navy in consultation with the Maritime Administration. The Fund shall be used only for the construction in private shipyards in the United States of merchant vessels capable of serving as military auxiliaries. The Bills contain detailed provisions on program administration and we are offering comments on the key sections later in this Statement.

We believe there is a clear need for new, militarily useful commercial vessels under the American flag. Sealift support ships of all kinds with modern technology for communications, navigation, and operations are vitally needed. We now live in a "computer age" and maritime technology is taking full advantage of these developments. This technology needs to be emphasized in the American Merchant Marine. Support vessels provide the lifeline of the combat fleet and enable our forces to be deployed at great distances for extended periods of time.

The accomplishments of our shipyard in Florida over the last several years in the construction of product tankers for charter to the Navy is an important development in the industry. Our Tampa Shipyard is one of the newest and most efficient in the world. We have recently invested over $60,000,000 in new shipbuilding facilities in Florida. During 1985 we provided employment to over 2,000 persons at Tampa Shipyard. We offer a complete ship construction, conversion, and repair facility which utilizes the most modern ship construction technology in the world. During 1984-85, we completed construction of two new dry-docks in which we have been building the T-5 product tankers for charter to the Navy. Each T-5 is designed to deliver 30,000 tons of fuel or other liquids worldwide and they are strengthened to withstand ice in arctic and antarctic use. We are now completing the fifth ship of the T-5 series. This program of five vessels will have been completed in a total of less than three years from contract to delivery of the final vessel. These are modern vessels which enhance the Navy's ability to transport a variety of fuels to fleet installations and ships at sea by means of underway replenishment technology. This is a unique feature of major significance to the military.

The Tampa Shipyard has implemented an innovative method of modular construction and advanced pre-outfitting to assure timely delivery. In this program we also utilized CAD/CAM - "computer assisted design and computer assisted manufacturing" to speed up the cutting and assembly of thousands of steel plates. This is an advanced application of CAD/CAM for ship construction in the United States.

Our T-5 construction program has been unique in U.S. shipbuilding history. Because time is of the essence in ship construction, considering costs alone we initiated a program of sharing work with other yards, so that maximum work would go on simultaneously in various yards and suppliers. CAD/CAM, therefore, enabled us to cut dramatically the period usually required for shipbuilding. The T-5 forebodies were built by Avondale Shipyards and the deck houses were built by Alabama Drydock. We have subcontracts with hundreds of companies in many states across the country.

We can report excellent results on our T-5 Program and we believe the Navy is very satisfied with this enhanced ability to move substantial cargoes of jet fuel and other petroleum products to the fleet. The four vessels which have been delivered were immediately introduced into service by the Military Sealift Command for Naval operations.

We urge the Committee to insure, by amendment if necessary, that the legislation will allow flexibility on the part of the Navy to have vessels which are built under this program eligible to be chartered to the Navy's Military Sealift Command. The Navy has the control over the type, size, and number of vessels to be built and should likewise have the ability to have the actual use of the vessel not just during hostilities but during peacetime as well. In the case of tankers, the Navy has traditionally chartered privately-owned tonnage for an extended period in order to have long term reliability.

There are a few items in the Bills which we believe should have some additional comment and we propose language to provide express authority in the Navy to use vessels built under this program.

The bills require that vessels built under this program must be sold or chartered to a "citizen of the United States" for documentation under the laws of the United States. This is a very important provision in order to keep this entire program under bona fide American control.

The Bills do not define "citizen of the United

States." However, because the legislation is an amendment to the Merchant Marine Act, 1936, as amended, which defines "citizen" in Section 905 (c), the existing definitions in the Act apply. The definitions in Section 905(c) specifically incorporate the definitions of "citizen" in Section 2 of the Shipping Act, 1916, as amended. We support these strict U.S. citizenship requirements.

In the case of vessels chartered to the Navy, the decision on operations is, of course, up to the Navy. The needs of the Navy and the other branches of Government totally control the deployment of the vessels. To assure that the Navy has continued and complete authority to carry out its program to have adequate support vessels, we are proposing clarifying language to be added, for example, to Section 1402 under H.R. 4136 or 4146.

Accordingly, we propose the following language in the form of a new subsection 1402(b), with the existing subsections 1402(a) and (b) to be redesignated as subsection 1402(a)(1) and (2):

> "(b) The Secretary may charter, for use by the Department of the Navy, and after due advertisement and upon competitive bids, any vessel constructed under this Title and sold or chartered under subsection (a)."

Section 1402(c) under H.R. 4136 and 4146 (Section 1401(f) under H.R. 3798) prescribes the method for calculating the price of the vessel to be charged a purchaser. First, the price would not include national defense design features and equipment. Second, the price would be the cost necessary to construct the vessel "outside the United States."

The "foreign cost" shall be determined by the Secretary of Transportation. The "foreign cost" is computed annually and in the event of a significant change in foreign shipbuilding market conditions, the foreign cost shall be recomputed more frequently. This process shall include public notices of the intent to compute or recompute and allow interested persons to submit statements.

Mr. Chairman, American Ship supports a new "Build and Charter" Program and our comments and suggestions are submitted to the Subcommittee in the hope of being of assistance in the effort to enact this program. We believe a new Build and Charter program will benefit our military as well as all segments of the American Merchant Marine industry. It should provide much needed employment and vessel construction work for U.S. shipyards, assure that militarily useful, commercial-type vessels are available, provide jobs to U.S. merchant seamen, and provide ship operators with an opportunity to obtain modern and commercially competitive U.S.-built vessels.

We appreciate the opportunity to present our views on these bills.

PREPARED STATEMENT OF MICHAEL W. WASACZ, PRESIDENT, MATSON NAVIGATION CO., INC.

I am Michael S. Wasacz, President of Matson Navigation Company, Inc. (Matson). I appreciate this opportunity to present Matson's views on H.R. 4136, H.R. 4146 and H.R. 3798.

Matson's operations as a common carrier of cargo are primarily between United States Pacific Coast Ports and Ports of the State of Hawaii. Matson, therefore, strongly supports Section 1409(b) of H.R. 4136 and H.R. 4146. Section 1409(b) prohibits the Secretary of the Navy from chartering or selling any merchant vessel constructed under the build and charter program for operation in the coastwise or intercoastal trades. The Secretary of Defense may direct a waiver of this domestic trading prohibition but only to the extent considered necessary in the interest of national defense, after affording notice and an opportunity to be heard to existing coastwise or intercoastal trade operators.

Section 1409(b) follows the language of Public Law 891 of the 81st Congress (64 stat. 1120), enacted December 27, 1950 which provides for waiver of the navigation and vessel inspection laws upon the request of the Secretary of Defense "to the extent deemed necessary in the interest of national defense by the Secretary of Defense." Public Law 891 has been in effect for 35 years and has been the subject of proceedings before the Secretary of Defense as to what should be deemed "necessary in the interest of national defense". The 35 year history of this standard which Section 1409(b) establishes for waiver of the domestic trading prohibition gives substance, meaning, and predictability to the waiver standard of Section 1409(b).

H.R. 3798 also excludes built and chartered ships from the domestic trades except under exceptional circumstances related to the national defense. The general prohibition on domestic operations contained in Section 1401(h)(2) of H.R. 3798 can, however, be waived by the Secretary of the Navy if the Secretary finds that it is in the interest of national security to so charter or sell any vessel built under this program. The language of

H.R. 3798 would create a new and unacceptably vague standard for waiver, however, because the term "in the interest of national security" is undefined. Further, H.R. 3798 contains no provision affording notice and the right to be heard to existing coastwise or intercoastal operators.

Matson and other domestic operators have invested hundreds of millions of dollars in U.S.-built and U.S.-registered ships which provide regularly scheduled reliable water service in the domestic trades. These relatively small trades should not be overtonnaged by the introduction of a government built and government subsidized vessel which would severely threaten the continued profitability of the unsubsidized U.S.-built ships now operating exclusively in the domestic trades.

Matson's other concern is that Section 1410 of H.R. 4136 directs the Administrator of the Maritime Administration to conduct a study of the maritime promotional programs within the Maritime Administration's jurisdiction in order to determine the potential application of those programs to the coastwise trades regulated under the Merchant Marine Act of 1920. As part of this study, the Maritime Administration is directed to include a review of the costs of vessels now engaged in the coastwise trade, projections for the future costs of such vessels, and the differential between U.S.-built vessels and those built in foreign shipyards.

If Congress feels that a close examination of the coastwise trades is advisable, Matson offers the following comments on how it should be approached.

First, if a study of the coastwise trades is to include an analysis of the "cost" of U.S.-built vs. foreign-built ships, it is essential that this cost review look beyond vessel construction costs to a more comprehensive analysis of costs associated with the ocean transportation system. For example, in Fall 1983 Matson estimated that if our fleet of U.S.-built ships serving Hawaii from U.S. Pacific ports had been constructed in foreign shipyards, Matson could reduce freight rates by about 9.7% without impairing its rate of return on rate base. On average, Matson's freight rates represent approximately 7% to 8% of the representative retail prices of goods in Hawaii. If this 7% to 8% were lowered by a one-time ocean freight rate reduction of 9.7%, the resulting one-time reduction in the retail price of goods delivered to Hawaii would be less than 1%. Even with the assumption that retailers would pass on this one-time cost reduction to the Hawaiian consumer, the resulting savings would have a miniscule effect on the cost of living. The point is that a study should not create the misleading impression that if ships costs twice as much to build in the United States, ocean freight rates will fall by 50% through the use of foreign-built vessels in the domestic trades. The total ocean transportation costs of liner cargo may include storedoor pickup and delivery charges, storage charges, vessel loading and unloading, wharfage, and administrative costs associated with receiving and distributing approximately 1,000 containers carried on each vessel sailing.

Second, any study of the costs of ocean shipping in the domestic trades should distinguish between liner and tanker vessels. Liner vessels are primarily common carriers which carry a vast variety of cargo at a wide range of freight rates and sail on a fixed schedule. Liners employ many people to solicit cargo, to insure the cargo is properly loaded and discharged from the vessel, and is received by the consignee. Domestic tankers operate primarily by bringing Alaskan crude oil to the Lower 48 for refining and involve a fundamentally different operation than a common carrier liner service.

The Jones Act requirement that ships serving the U.S. domestic trades must be U.S.-built is a critical issue for operators such as Matson with over $300 million already invested in U.S.-built ships. We suggest, therefore, that the study be performed by an unbiased organization which can examine this question objectively and be insulated from any possibility of political influence.

Thank you for your consideration of the comments of Matson Navigation Company, Inc..

Prepared Statement of George F. Lowman, Chairman of the Board/Chief Executive Officer, Farrell Lines, Inc.

Mr. Chairman and Distinguished Members of the Committee,

My name is George F. Lowman. I am the Chairman and C.E.O. of Farrell Lines Incorporated, an American Flag, subsidized, international carrier. I am appearing here today to comment on S. 1885, a Bill to authorize the establishment of a Military Auxiliary Revolving Fund within the Treasury of the United States, amending the Merchant Marine Act of 1936 by adding Title XIV - Build and Charter.

In an appearance before this Committee on November 15, 1985, I spoke on behalf of the Council of American Flag Shipping Organization (CASO), and I supported a Build and Charter Program. I stated that the concept, although constructive, offered only an incomplete solution to the problems facing the public and private sectors of the Merchant Marine Industry, and I urged that the Committee take a broader view of the American Merchant Marine to include such items as: a Build and Charter Foreign Program; an expanded Title XI Financing Program; a U.S. Crews with Wage Differential Program; and a Deregulation of Trade Routes Program. Today, I am representing Farrell Lines only, and my remarks will be in support of S. 1885.

It would be appropriate to give you a brief description of Farrell Lines, to point out how a smaller Company in the lesser trade routes would be a candidate for this type of Build and Charter Program. In our trade areas, including the Mediterranean and West Africa, we are not interested in supersize container ships capable of carrying 3,500-4,500 TEUS. We are interested in smaller vessels with the capability to carry container, break bulk and roll-on/roll-off cargo. The largest container ships are effective on the very heavily trafficked and most sophisticated trade routes. They require modern container ports with deep drafts, and shoreside gear to accommodate them. Many of our ports of call involve third-world countries where the ports are less efficient, thereby requiring our ships to be self-sustaining and capable of loading and discharging with the use of our own gear. This characteristic, it seems to me, makes our operation more compatible with the needs and desires of the Navy, which

CANNOT ALWAYS FIND AVAILABLE A SOPHISTICATED AND MODERN PORT ABLE TO ACCOMMODATE THE LARGER CONTAINER SHIPS.

IN MOST INSTANCES OUR COMPETITION IS FOREIGN AND EMPLOYS EQUIPMENT BUILT IN THE LEAST EXPENSIVE SHIPYARDS IN THE WORLD. IT IS ESSENTIAL, THEREFORE, THAT FARRELL MEETS THAT COMPETITION HEAD ON, SO THAT IT IS ABLE TO PROVIDE ITS COMMERCIAL SHIPPERS WITH A RELIABLE SERVICE AT COMPETITIVE RATES. ACCORDINGLY, IT CANNOT PAY MORE FOR ITS SHIPS AND OTHER EQUIPMENT THAN ITS COMPETITORS PAY. UNDER NO CIRCUMSTANCES WOULD FARRELL BE INTERESTED IN BIDDING FOR A NAVY SHIP AT A PRICE HIGHER THAN FOREIGN COMPETITIVE COSTS. SUCH AN ACT WOULD IMMEDIATELY MAKE US NON-COMPETITIVE. BY THE SAME TOKEN, WE WOULD NOT EXPECT TO RECEIVE NEW CONSTRUCTION FOR LESS THAN THE PRICE OUR COMPETITION IS PAYING FOR THEIR SHIPS.

THE OPERATION OF A MODERN CARRIER FLEET IS NOT STATIC. IT CHANGES FROM TIME TO TIME AS THE NEEDS OF SHIPPERS CHANGE. ANY EQUIPMENT PURCHASED OR CHARTERED FROM THE NAVY MIGHT, THEREFORE, NEED TO BE MODIFIED AND IMPROVED AS THE CONDITIONS IN THE TRADE DICTATE IN ORDER THAT THE CARRIER CAN CONTINUE TO REMAIN COMPETITIVE.

SUPPLEMENTING THE REMARKS IN MY PREVIOUS APPEARANCE ON RECORD BEFORE THIS COMMITTEE, I WOULD LIKE TO ADDRESS MYSELF, SPECIFICALLY, TO THE FOLLOWING ENUMERATED AREAS.

I. RE: SEC. 1402

SECTION 1402 PROVIDES THAT THE SECRETARY OF THE NAVY MAY CHARTER VESSELS CONSTRUCTED UNDER THIS ACT ". . . AFTER DUE ADVERTISEMENT AND UPON SEALED COMPETITIVE BIDS." THE AMERICAN MERCHANT MARINE OPERATES IN A DIFFICULT AND HIGHLY COMPETITIVE INTERNATIONAL INDUSTRY. OUR PRIVATE COMPANIES COMPETE NOT ONLY AGAINST FOREIGN NATIONALS BUT, IN MANY INSTANCES, AGAINST FOREIGN COUNTRIES. TO BE

COMPETITIVE, THEREFORE, THE MERCHANT MARINE REQUIRES THE MOST MODERN AND EFFICIENT VESSELS IT CAN OBTAIN. IT IS UNREALISTIC TO THINK THAT THE NAVY CAN BUILD A COMPLEMENT OF SHIPS DESIGNED PRIMARILY FOR MILITARY PURPOSES, BUT OFFERED TO THE MERCHANT MARINE FOR CHARTER AND/OR PURCHASE, PENDING THEIR USE IN MILITARY EMERGENCIES. TO BE COMPETITIVE AND EFFICIENT, THE SHIPS MUST BE BUILT FOR THE PARTICULAR TRADES IN WHICH THEY WILL OPERATE, AND CANNOT BE COMPROMISED IN DESIGN OR CONSTRUCTION WITHOUT SUBJECTING THE CARRIER TO A SIGNIFICANT DISADVANTAGE. THEREFORE, INSTEAD OF OFFERING SHIPS THAT HAVE BEEN CONSTRUCTED, THE SECRETARY OF THE NAVY SHOULD OFFER TO INTERESTED CARRIERS THE OPPORTUNITY TO DEVELOP PLANS FOR SHIPS WHICH WILL HAVE A PRIMARY USEFULNESS TO THE CARRIER, BUT WHICH THE SECRETARY MAY FIND ADAPTABLE TO THE NAVY WITH CERTAIN MODIFICATIONS AND CHANGES. TO THE EXTENT SUCH MODIFICATIONS OR CHANGES REDUCE THE COMPETITIVENESS OF SUCH SHIPS, THE NAVY SHOULD BEAR THE RESULTANT COST.

A CARRIER IN THE MERCHANT MARINE CANNOT USE MAKESHIFT EQUIPMENT, EVEN THOUGH BRAND NEW, AND STILL BE COMPETITIVE IN THE DIFFICULT INTERNATIONAL TRADE IN WHICH IT IS REQUIRED TO OPERATE. SHIPS THAT ARE DESIGNED FOR PARTICULAR CARRIERS MUST HAVE THE REQUIRED CHARACTERISTICS TO BE COMPETITIVE. WHERE THE INTERESTS OF THE CARRIER AND THE NAVY ARE COMPATIBLE, AND THE PRICE THAT THE CARRIER IS OBLIGED TO PAY IS BASED UPON THE COST OF A COMPARABLE SHIP BUILT IN A FOREIGN SHIPYARD, THE REVOLVING FUND WILL BE FAIRLY COMPENSATED WITHOUT THE NECESSITY OF COMPETITIVE BIDS.

SUCH CONSTRUCTION SHOULD BE SOLD OR CHARTERED TO THE CARRIER CONCERNED, WITH THE UNDERSTANDING THATTHE PRICE BASIS WILL BE COMPARABLE FOREIGN CONSTRUCTION COSTS LESS ANY NATIONAL DEFENSE DESIGNED FEATURES AND EQUIPMENT REQUIRED BY THE NAVY.

II. RE: SEC. 1403

SECTION 1403 STATES THAT WHERE A CARRIER CHARTERS OR PURCHASES A MERCHANT VESSEL UNDER THE ACT, IT WILL NOT BE ELIGIBLE FOR ODS. MOST OF THE SHIPS OWNED BY PRESENT ODS CONTRACT CARRIERS WERE BUILT WITH CONSTRUCTION SUBSIDIES. THE PURPOSE OF CONSTRUCTION SUBSIDIES WAS TO PROVIDE AMERICAN CARRIERS WITH SHIPS COMPARABLE IN PRICE TO FOREIGN COMPETITION. A NEW OR REPLACEMENT SHIP BUILT PURSUANT TO THIS ACT SHOULD NOT BE PRECLUDED FROM SUBSIDY SINCE A PURCHASED OR CHARTERED VESSEL SHOULD COST THE CARRIER NO MORE THAN ONE BUILT WITH CAPITAL CONSTRUCTION FUNDS (CCS). ODS RELATES TO WAGE DIFFERENTIALS AND SHOULD NOT BE AFFECTED BY THE COST OF VESSEL CONSTRUCTION.

III. RE: SEC. 1406

IN READING THE LANGUAGE OF SECTION 1406, IT IS HARD TO UNDERSTAND THE PURPOSE THE LEGISLATION IS SEEKING TO EFFECT. ONE CANNOT DETERMINE WHETHER THE SECRETARY OF THE NAVY, BY USING A COMPETITIVE BIDDING PROCESS, IS ATTEMPTING TO GET A RETURN GREATER THAN A CHARTER HIRE BASED ON COMPARABLE FOREIGN CONSTRUCTION COSTS, OR WHETHER THE SECRETARY IS SEEKING TO PERMIT A CARRIER TO REALIZE A BONANZA BY OBTAINING THE PURCHASE OR CHARTER OF A SHIP AT LESS THAN A VALUE BASED ON COMPARABLE FOREIGN COSTS. IN MY VIEW, NEITHER OF THOSE ALTERNATIVES IS APPROPRIATE. THE CARRIER SHOULD PAY NO MORE, AND/OR INDEED NO LESS, THAN A VALUE BASED ON COMPARABLE FOREIGN CONSTRUCTION COSTS.

ACCORDINGLY, IF THE CARRIER BUYS OR CHARTERS SUCH VESSELS AT COMPARABLE FOREIGN CONSTRUCTION COSTS AND THEREAFTER MANAGES TO MAKE A PROFIT ON THE YEAR'S OPERATION, THERE IS NO REASONABLE BASIS FOR IMPOSING UPON A CARRIER AN OBLIGATION TO REPAY A PERCENTAGE OF ITS PROFITS. A SHIPPING COMPANY'S PERFORMANCE VARIES GREATLY FROM YEAR TO YEAR. UNDER FAVORABLE INTERNATIONAL CONDITIONS, PROFITS MAY BE

HIGH. UNDER ADVERSE CONDITIONS, HOWEVER, THERE MAY BE MODEST PROFITS, OR EVEN SIGNIFICANT LOSSES. I DON'T SUPPOSE THE GOVERNMENT IS SUGGESTING THAT IN ADVERSE YEARS THE NAVY WOULD BE WILLING TO SHARE THE LOSSES.

AS I HAVE INDICATED ABOVE, THE AWARDING OF SHIPS UNDER A PROGRAM OF THIS NATURE SHOULD NOT BE BASED ON ANY CONSIDERATION OTHER THAN A COMPARABLE FOREIGN CONSTRUCTION COST. IN SUCH A SITUATION, THE CARRIER WOULD PAY THE SAME PRICE THAT HIS COMPETITION IS OBLIGED TO PAY AND HE, THEREFORE, HAS THE INCENTIVE TO OPERATE MORE EFFICIENTLY AND THEREBY REALIZE A PROFIT.

IN PREVIOUS HEARINGS BEFORE MEMBERS OF THIS COMMITTEE, REPRESENTATIONS WERE MADE BY AMERICAN FLAG CARRIERS AND MEMBERS OF CASO THAT THEY NEED MANY MORE SHIPS THAN CAN BE CONSTRUCTED UNDER THIS BUILD AND CHARTER PROGRAM. ACCORDINGLY, THERE SHOULD BE LANGUAGE IN THIS ACT TO PROVIDE THAT THOSE CARRIERS WHO ARE NOT SUCCESSFUL IN REACHING AGREEMENTS WITH THE SECRETARY OF THE NAVY FOR THE SALE OR CHARTER OF VESSELS IN A PARTICULAR YEAR AND WHO ARE NOT ABLE TO WAIT FOR SUBSEQUENT ALLOCATIONS OF MONEY IN LATER YEARS, HAVE THE RIGHT TO BUILD OR CHARTER FOREIGN. TO FAIL TO PROVIDE SUCH AN ALTERNATIVE WHERE THERE IS NO REALISTIC OPPORTUNITY TO BUILD OR CHARTER IN THE AMERICAN MARKET WOULD BE INEQUITABLE AND INIMICAL TO THE BEST INTEREST OF THE AMERICAN CARRIERS NEEDING NEW EQUIPMENT FOR COMPETITIVE, COMMERCIAL PURPOSES.

IV. RE: SEC. 1408

TO THE EXTENT SEC. 1408 REQUIRES A CARRIER, WHO BUILDS OR CHARTERS A VESSEL UNDER THIS ACT, TO BUY INSURANCE IN EXCESS OF THAT USUALLY OBTAINED IN ACCORDANCE WITH REASONABLE BUSINESS JUDGMENT, SUCH EXTRA COSTS SHOULD BE FOR THE ACCOUNT OF THE SECRETARY OF THE NAVY.

V. Re: Sec. 1409

If the language of Section 1409 means wha
say, only very few carriers will be able
charter under this Act. Certainly, Farre
hold a vessel for ten years before operat
Atlantic or trans-Pacific service. My un
the language would lead me to conclude th
the U.S. to the Mediterranean area would
service and, therefore, ships built under
not be eligible for operation until ten y
struction. Likewise, ships for use from
to West, South, or East Africa would be i
Atlantic service. I would suppose that s
East and West coasts of the United States
New Zealand would be trans-Atlantic and/o
carriers and, therefore, not eligible, ex
such construction replaces an existing ve
ODS or replaces a vessel over 25 years of
obsolete. I don't fully understand what
designed to accomplish, but if I read it
Farrell would not be able to participate

VI. Re: General

In reply to the specific questions raised
letter dated February 4, 1986:

A. MarAd would be the appropriate agency
carriers should deal under the propos
The Maritime Administration is compos
citizens with varied and many-faceted areas of
training and experience who are more likely to under-
stand the competitive nature of the private shipping
business. The Navy is a command structure that has a
specific purpose and permits little d
fication of the rules under which it

OPERATE. IT SOMETIMES GETS OVERBURDENED WITH ITS AUTHORITY AND HAS PROBLEMS OPERATING IN THE PRIVATE SECTOR.

B. FOR MOST CARRIERS IN THE AMERICAN MERCHANT MARINE, THE PROBLEM OF OVERTONNAGE IS SUBORDINATE TO THE NECESSITY TO OBTAIN MODERN COMPETITIVE EQUIPMENT. UNDER THE SHIPPING ACT OF 1936 AND ITS AMENDMENTS, ALL AMERICAN SHIPS CONSTRUCTED PRIOR TO THE LAST THREE OR FOUR YEARS HAVE BEEN POWERED BY STEAM-TURBINES TO MEET THE DEFENSE REQUIREMENTS OF THE U.S. NAVY. MOST OF THOSE SHIPS ARE STILL RELATIVELY YOUNG AS TO AGE, BUT OLD AS TO DESIGN AND EFFICIENCY. MOST CARRIERS, THEREFORE, ARE SEEKING TO REPLACE THEIR EXPENSIVE STEAM-TURBINED OPERATIONS WITH SLOW-SPEED DIESELS WHICH CONSUME LESS FUEL AT A LOWER COST AND REQUIRE FEWER IN CREW TO OPERATE AND MAINTAIN THEM. THEREFORE, DESPITE OVERTONNAGE IN THE INDUSTRY, A BUILD AND CHARTER PROGRAM TO PROVIDE MODERN, EFFICIENT, EFFECTIVE EQUIPMENT IS DESIRABLE. IF THE NAVY INSISTS THAT NEW CONSTRUCTION UNDER THIS ACT SHOULD INCLUDE STEAM-TURBINES, THEN APPROPRIATE FINANCIAL ALLOWANCES SHOULD BE PROVIDED TO COMPENSATE THE CARRIER FOR THE ADDITIONAL COSTS HE INCURS, WHICH WOULD MAKE HIM NON-COMPETITIVE.

C. I HAVE DEALT WITH THE ECONOMIC FEASIBILITY OF CHARTERING IN THE LIGHT OF THE SPECIFIC LIMITATIONS IMPOSED BY THE ACT IN MY REMARKS ABOVE.

THANK YOU FOR THIS OPPORTUNITY TO TESTIFY. I WILL BE PLEASED TO TRY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

AUTOLINERS INCORPORATED

GENERAL AGENTS FOR HØEGH UGLAND AUTO LINERS

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CABLES AUTOLINERS N.Y.

New York, N.Y.
February 25, 1986

The Honorable Charles E. Bennett
Chairman
Subcommittee on Seapower and Strategic
and Critical Materials
Committee on Armed Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We understand that the Subcommittee on Seapower and Strategic and Critical Materials will hold a hearing on March 4, 1986 on legislation to authorize commitments against the so-called MARINER Fund for which the Congress appropriated $852.1 million in December, 1985.

Recognizing that there is a continuing need for roll-on/roll-off (RO/RO) vessels to support U.S. military operations, we would surmise that this category of ships will fit the definition of militarily-useful, commercially-practicable vessels the Fund is intended to provide. As an experienced operator, we would be interested in being considered as a potential charterer of U.S. flag RO/RO vessel(s) constructed under the auspices of the Fund. The vessel(s) would be integrated into our current fleet.

BRANCHES

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TWX 810-232-1885

WILMINGTON MARINE TERMINAL
WILMINGTON, DELAWARE 19801
TEL. [illegible] 655-7504
TWX [illegible]
CABLES AUTOLINERS WIL

Our company, Autoliners, Inc., a New York State corporation, is part of Heogh Ugland Auto Liners (HUAL), which is one of the world's leading independent operators of car/truck carriers. Our main trade routes are from Europe to North America, the Middle East and the Far East, and from Japan to Europe, the Mediterranean, and North America. Our current fleet consists of 15 modern, highly sophisticated RO/ROs, transporting approximately 400,000 vehicles annually. These vessels are of our own design, which we believe can be quickly, feasibly, and economically adapted for U.S. Maritime service.

We are affiliated with two prominent international shipping companies:

1. The Leif Hoegh Group of Oslo, Norway, controlling a fleet of 48 ships totalling about 2.5 million deadweight tons.

2. The Ugland Group of Grimstad, Norway operating 47 vessels, totalling close to 2.3 million deadweight tons.

With this background, we want to assure you that Autoliners, Inc. and HUAL would be candidates to charter RO/RO resulting from the MARINER Fund. The ships would be put to immediate use in HUAL's existing world-wide network of transportation contracts. We are already in discussion with an American shipyard, National Steel & Shipbuilding Co. (NASSCO), and believe an attractive joint proposal can be developed.

We hope you will look with favor on this expression of interest, and we are prepared to meet with you and/or your staff for a more detailed discussion of that interest.

Sincerely,

A. J. Stretz
President

AJS:lt

EAC SHIPPING U.S.A.
Division of The East Asiatic Company, Inc.

73-45 Woodhaven Blvd
Glendale, New York, 11385
Telephone (212) 896-5500
TWX 710-582-2850
Telex 62259

March 4, 1986

The Honorable Charles E. Bennett
Chairman, Subcommittee on Seapower and
  Strategic and Critical Materials
Committee on Armed Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We understand that your Subcommittee will be holding hearings shortly on legislation to authorize commitments against the so-called MARINER Fund for which the Congress appropriated $852.1 million in December, 1985.

Recognizing that there is a continuing need for tankers to support U.S. military operations, we would surmise that this category of ships will fit the definition of militarily-useful, commercially-practicable vessels the Fund is intended to provide.

Our company, EAC Shipping USA is part of The East Asiatic Company Limited, a multinational company headquartered in Copenhagen, Denmark, which is also a leading Scandinavian operator of various ship types, product carriers included. The EAC group, which was founded in 1897, is active in more than fifty countries and employs a total of 28,000 people. We have been operating tankers for more than twenty-five years. Among our customers is the Military Sealift Command for whom we have lifted a number of cargoes in various parts of the world.

With this background we wish to advise you that EAC Shipping USA and/or its parent organization would be interested in entering into negotiations with the U.S. Government with a view to operating product carriers being built under the MARINER Fund Program. The ships would be put to use as part of EAC's existing pool of product carriers.

We hope you will look with favor on this expression of interest, and we are prepared to meet with you and/or your staff for a more detailed discussion of that interest.

Very truly yours,

Vagn Fausing

VF:kd

HOEGH LINES (U.S.) INC

230 PARK AVENUE
[illegible]

March 5, 1986

The Honorable Charles E. Bennett
Chairman
Subcommittee on Seapower and Strategic
and Critical Materials
Committee on Armed Services
House Of Representatives
Washington, DC 20515

Dear Mr. Chairman:

We understand your Subcommittee is currently considering legislation to authorize commitments against the so-called MARINER Fund for which the Congress appropriated $852.1 million in December, 1985.

Assuming there is a continuing need for tankers or combination ships (oil/bulk/ore carriers--or "OBOS") to support U. S. military operations, we would surmise that this category of ships will fit the definition of militarily-useful, commercially-practicable vessels the Fund is intended to provide.

Our company, Hoegh Lines (U. S.) Inc., a New York state corporation, is part of the Leif Hoegh group of Oslo, Norway, which controls a fleet of approximately fifty ships totaling about 2.5 million deadweight tons. The Leif Hoegh group has been operating tankers for about sixty years (its very first ship was a tanker chartered to an American oil company) and is currently controlling more than a million deadweight tons of ships with oil carrying capability. Our ships have lifted a number of cargoes for the Military Sealift Command.

For these reasons, we would be most interested in being considered as candidates to manage and operate U. S. flag products carriers being built under the MARINER Fund Program.

We are already in discussion with an American shipyard, National Steel & Shipbuilding Company (NASSCO), and believe an attractive joint proposal can be developed.

We are available to meet with you and/or your staff for a detailed discussion of our interest in the program.

Sincerely,

American Trading Transportation Company, Inc.
555 Fifth Avenue
New York, N. Y. 10017
Telephone (212) 682-7722

TELEX
TWX 710-581-4277
RCA 234143

CABLE ADDRESS
ATTRANSCO NEW YORK

March 3, 1986

The Honorable Charles E. Bennett
Chairman,
Subcommittee on Sea Power and Strategic
and Critical Materials Committee on Armed Services
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Build and Charter Program

American Trading Transportation Company, Inc. is an owner and operator of militarily useful American Flag Product Tankers with almost fifty years of business experience in this trade. Our current fleet consists of five such vessels, down from eight within the past eight months.

We have reviewed a number of the "Build and Charter" proposals as they relate to militarily useful product tankers and the available commercial trade. While we are providing detailed comments at a later date, we understand that your Committee will be holding hearings on Tuesday of this week and we would like to put forth our broad viewpoint relative to the various bills which address this program.

Specifically, we wish to address two questions. First, can such a program be viable and offer the Government a reserve of additional tonnage, and second, are there any broad identifiable pitfalls associated with the concept?

Viability

Presuming a final program will enable the operator of a ship to experience (1) the capital cost and debt structure of his foreign competitor; (2) the operating cost of his foreign competitor; (3) a risk not in excess of his foreign competitor and, (4) a profit and loss opportunity equal to his foreign competitor, we believe there will be commercial interest in such a program. Presuming the above is true and that the Government will accept a commercially useful product tanker, the real question we are then asking is - do owners build foreign flag product tankers in this depressed market? The answer is yes they do. Clearly, there are not large numbers of orders, but there are some.

Economics and commercial viability aside, obviously, such a program will enable the Government to have access to suitable operating tonnage, fully manned and with an operating infrastructure in time of need.

Program Pitfalls

While some bills require modification in terms of the details associated with the program, we believe there are two broad areas in the proposed legislation which should be carefully addressed.

1. A number of commercial navy programs have been "low balled" by single purpose, newly established, under capitalized companies which eventually have difficulty fulfilling the commitments made. This type of program, where a capital investment may not be required, will particularly attract such companies. While such companies have been low bidders, we believe that the Government should seek relationships with the well established companies who have been in the business for a reasonable period of time with an established and acceptable track record. We believe the U.S. Navy, like a commercial entity, needs performance, not simply a promise to perform.

2. We have great concern that ships built and operated under a build and charter program, which through lease terms represents a low cost operation, will compete against our vessels which were built and operated without government funds. While I understand that such is not the intent of the Government, our own bitter experience with the admission of subsidized ships into the domestic trade, proves our concern to be well founded and, I am certain, a number of operators, if successful in gaining participation in the program would seek the right to enter the domestic trade at appropriate times. At present, and for the past few years, the domestic trade is very depressed and additional tonnage entering this trade on new concessionary terms would adversely impact the ability of established companies, who have full priced assets, to survive. We recommend that any enabling legislation contain a firm and absolute prohibition against "build and charter" tankers entering the domestic trade.

We trust you will find our broad comments as above to be of value and should you, members of your Subcommittee or your staff require additional information, please contact us at your convenience.

Sincerely,

D. R. Yearwood
President

DRY/em

PREPARED STATEMENT OF WILLIAM E. HAGGETT

Mr. Chairman I am William E. Haggett, President and Chief Executive Officer, Bath Iron Works Corporation, and Chairman of the Board of Directors of the Shipbuilders Council of America. I am appearing today on behalf of the Shipbuilders Council which is the principal trade organization of the shipbuilding and ship repair industry and the suppliers of equipments, materials and services to the industry. A listing of the membership of the Shipbuilders Council is attached to this testimony as Appendix A.

For a number of years the Shipbuilders Council has been speaking out to alert the nation that under present and planned maritime promotional policies our privately-owned shipping and shipbuilding industries cannot provide the assets and capability which the nation requires in time of war or national emergency. Unfortunately, neither we nor others in the industry have been able to alter the development of policy or to cause meaningful review of the problems by the Administration. Therefore, Mr. Chairman, we were elated when you caused the creation of the Commission on Merchant Marine and Defense by the Congress in August 1984 to study and recommend solutions to these perplexing problems. Unfortunately, as you know, our leaders have not seen fit to appoint the public sector members to the Commission and thereby set in motion the work you and your Congressional collegues want accomplished. We continue to be disappointed by the position of the Administration in regard to merchant ship related affairs and policy.

Our Annual Report for 1985 contains a section entitled Maritime Policy 1980 to 1985 - An Accounting which deals with the problem of policy development and describes the briefing which the Council recently organized for LTGEN Alfred G. Hansen, Director, J-4 Directorate on Logistics, of the Joint Chiefs of Staff. A copy of the referenced section of the Annual Report is attached to this testimony as Appendix B. In the briefing, industry experts developed, discussed, and examined data which indicated that our sealift assets and those of our NATO allies are in rapid decline. Even more disturbing is the conclusion of these experts that without a stable and supportive national maritime policy designed to provide for the national security, it is not possible to predict with an adequate degree of precision the level to which our maritime assets will decline by the end of this decade. There is no doubt, however, in the view of these experts, that the assets will decline to extremely dangerous levels as measured against the requirements of the national defense.

The military planners of the Navy, Maritime Administration and the Department of Defense (DoD) can state that our dry cargo shipping assets are marginally inadequate to meet military shipping requirements only. These conclusions are based on studies completed in 1984 and do not address the extremely rapid decline in shipping assets which has occurred thereafter and continues to this day. Further, a recent study completed by the DoD finds that a deficiency exists as to the tankers required to transport petroleum cargos. The shortfall is measured in dozens of vessels. In our judgement, these data and the conclusion derived from them are unrealistically optimistic for a number of reasons, not the least of which is the staleness of the inputs into the study.

Regarding measurement of the adequacy of the shipbuilding and ship repair industry to meet the defined requirement of mobilization and war, the Shipbuilders Council is in sharp disagreement with the military planners who find that the Shipyard Mobilization Base is adequately supported by the naval shipbuilding and repair programs. A detailed analysis of the status of the shipbuilding and ship repair industry as measured against the required Shipyard Mobilization Base is attached to this testimony as Appendix C. Review of this work by the Committee will, we are sure, firmly convince it that corrective action is necessary to address the increasing deficiencies.

There are in reality three problems which must be attacked to arrest the decline in our maritime capability. Ways must be found to:

(1) provide badly needed military sealift ships,

(2) provide jobs to sustain the U.S. citizen seagoing personnel pool, and

(3) provide shipbuilding work to partly sustain the Shipyard Mobilization Base.

These problems must be addressed on an interim basis, Mr. Chairman, until the Commission has been able to recommend more effective and permanent solutions. "Build and Charter" is not a full solution to the maritime problems. It is, however, unique in that it provides a measure of relief for each of the segments of the industry. Therefore, the Council strongly supports the "Build and Charter" program as the simplest and best interim method of attacking the severe problems which we face in providing maritime assets and capability. Congressmen McKernan's and Foglietta's bill, HR-3798, and the bills of Chairmen Jones and Biaggi, HR-4146 and HR-4136, respectively, are only before this Committee because of the excellent performance of United States shipbuilders in producing naval vessels below projected costs and because these shipbuilding savings have been set aside to capitalize a "Build and Charter" program.

In order to achieve the objectives stated previously, the vessels must be built to be commercially viable and thereafter chartered if possible. No ships are more useful and needed in a national emergency than are militarily useful operating ships. We firmly believe that an enlightened shipbuilding program created with flexibility as to charter requirements will produce ships which will be used and meet the objective of providing militarily useful operating ships. Such a program will provide needed work for some of the 6 to 8 major shipyards which will be without new construction work in the near future. Frankly, Mr. Chairman, the nation cannot afford the loss of the capability represented by these shipyards from the Shipyard Mobilization Base without placing the nation in jeopardy.

It is important that this Committee act promptly to pass "Build and Charter" legislation so that the legislative process of full enactment by the Congress and the then lengthy process which will undoubtably be required to initiate the construction. Under the best of conditions, it is unlikely that actual ship construction under the program can commence before late 1987 or early 1988. Even this period of delay will cause significant loss of shipbuilding capacity and affect our ability to carry out mobilization and deployment.

Moreover, even under the best of circumstances, the Council believes that it is unlikely that the recommendations of the Commission on Merchant Marine and Defense to sustain the Shipyard Mobilization Base and the commercial fleets can be developed and implemented before the end of the decade. "Build and Charter" legislation is essential because it can provide a highly useful bridge between the existing maritime asset deficiencies and the promise of a better and fuller long-term solution for the future through the work of the Commission.

This concludes my prepared statement. I will attempt to answer any questions that you may have.

Appendix A

REGULAR MEMBERS

ADDSCO Industries, Inc.
Post Office Box 1507
Mobile, AL 36601

The American Ship Building Company
Lincoln Pointe Building - Suite 800
2502 Rocky Point Road
Tampa, FL 36607
Tampa Shipyards, Inc., Tampa, FL

Avondale Industries, Inc.
Avondale Shipyards Division
Post Office Box 50280
New Orleans, LA 70150

Bath Iron Works Corporation
700 Washington Street
Bath, ME 04530

Bay Shipbuilding Corporation
605 North Third Avenue
Sturgeon Bay, WI 54235

Bethlehem Steel Corporation
Marine Construction Group
Bethlehem, PA 18016
Beaumont, TX
Sparrows Point, MD

Capital Marine Corporation
Post Office Box 498
Chester, PA 19016

Coastal Dry Dock & Repair Corporation
Brooklyn Navy Yard - Building 131
Brooklyn, NY 11205

General Dynamics Corporation
Pierre Laclede Center
St. Louis, MO 63105
Electric Boat Division, Groton, CT
  and Quonset Point, RI
Quincy Shipbuilding Division, Quincy, MA
  and Charleston, SC

General Ship Corporation
400 Border Street
East Boston, MA 02128

Hoboken Shipyards, Inc.
1301 Hudson Street
Hoboken, NJ 07030

Ingalls Shipbuilding Division
Litton Industries
Post Office Box 149
Pascagoula, MS 39567

Jacksonville Shipyards, Inc.
750 East Bay Street
Post Office Box 2347
Jacksonville, FL 32203

Lockheed Shipbuilding Company
2929 Sixteenth Avenue, SW
Seattle, WA 98134

Marine Power & Equipment Company, Inc.
1441 North Northlake Way
Seattle, WA 98103

Marinette Marine Corporation
Ely Street
Marinette, WI 54143

National Steel & Shipbuilding Company
Harbor Drive at Twenty-Eighth Street
Post Office Box 80278
San Diego, CA 92138

Newport News Shipbuilding
4101 Washington Avenue
Newport News, VA 23607

Norfolk Shipbuilding & Drydock Corp
Post Office Box 2100
Norfolk, VA 23501
Norfolk, VA (2 plants)
Berkeley, VA

Peterson Builders, Inc.
101 Pennsylvania Street
Post Office Box 47
Sturgeon Bay, WI 54235

Southwest Marine, Inc.
Foot of Sampson Street
Post Office Box 13308
San Diego, CA 92113
San Francisco, CA
San Pedro, CA

Todd Shipyards Corporation
Todd Pacific Shipyards Corporation
One State Street Plaza
New York, NY 10004
Galveston, TX; Los Angeles, CA;
New Orleans, LA
San Francisco, CA; Seattle, WA

Tracor Marine, Inc.
Post Office Box 13107
Port Everglades, FL 33316

ALLIED INDUSTRIES MEMBERS.

Bird-Johnson Company
110 Norfolk Street
Walpole, MA 02081

Borg-Warner Air Conditioning, Inc.
York International
631 South Richland Avenue
Post Office Box 1592
York, PA 17405

Colt Industries, Inc.
1901 L Street, NW
Washington, DC 20036

Combustion Engineering, Inc.
Prospect Hill Road
Windsor, CT 06095

Eaton Corporation
Cutler-Hammer Products
17919 Pond Road
Ashton, MD 20861

General Electric Company
1331 Pennsylvania Avenue, NW
Washington, DC 20004

Gould, Inc.
Systems Protection Division
13500 Roosevelt Boulevard
Philadelphia, PA 19116

Hopeman Brothers, Inc.
Post Office Box 820
Waynesboro, VA 22980

Jamestown Metal Marine Sales, Inc.
4710 Northwest Second Avenue
Boca Raton, FL 33431

Jered Brown Brothers, Inc.
1300 Coolidge
Post Office Box 2006
Troy, MI 48007-2006

Lake Shore, Inc.
Post Office Box 809
Iron Mountain, MI 49801

MacGregor-Navire (USA), Inc.
135 Dermody Street
Cranford, NJ 07016

Milwaukee Valve Company, Inc.
2375 South Burrell Street
Milwaukee, WI 53207

Sperry Marine Systems
Route 29 North and Hydraulic Road
Charlottesville, VA 22906

Transamerica Delaval, Inc.
3450 Princeton Pike
Post Office Box 6550
Lawrenceville, NJ 08648

Ward Leonard Electric Company, Inc.
Thirty-One South Street
Mount Vernon, NY 10550

Western Gear Machinery Company
1100 Milwaukee Avenue
South Milwaukee, WI 53172

Westinghouse Electric Corporation
Hendy Avenue
Sunnyvale, CA 94088

Worthington Pump Division
Dresser Industries, Inc.
270 Sheffield Street
Mountainside, NJ 07092

AFFILIATE MEMBERS

Analysis & Technology, Inc.
Technical Services Sector
Post Office Box 1631
New London, CT 06320

The Bingham Group
1210 Jefferson Davis Highway
Arlington, VA 22202

C-O-Two Sales & Service
Seventy Hudson Street
Hoboken, NJ 07030.

Foley, Hoag & Eliot
One Post Office Square
Boston, MA 02109

Hayward Industrial Products, Inc.
900 Fairmount Avenue
Post Office Box 18
Elizabeth, NJ 07207

Maersk Line, Limited
One World Trade Center
New York, NY 10048

ManTech International Corporation
2121 Eisenhower Avenue
Alexandria, VA 22314

McLean Contracting Company
1301-3 Fidelity Building
Baltimore, MD 21201

McNab, Inc.
Twenty North MacQuesten Parkway
Mount Vernon, NY 10550

Ocean Electronics, Inc
Brooklyn Navy Yard
Brooklyn, NY 11205

PacOrd, Inc.
2700 Hoover Avenue
National City, CA 92050

AFFILIATE MEMBERS—Cont.

Pettit & Martin
1800 Massachusetts Avenue, NW
Washington, DC 20036

Poten & Partners, Inc.
711 Third Avenue
New York, NY 10017

Seacoast Electric Supply Corporation
Station Plaza
Rye, NY 10580

Seyfarth, Shaw, Fairweather & Geraldson
1111 19th Street, NW
Washington, DC 20036

Standard Marine Services, Inc.
One Ingham Avenue
Bayonne, NJ 07002

Sulzer Bros., Inc.
200 Park Avenue
New York, NY 10166

TechMedia Corporation
121 North Orianna Street
Philadelphia, PA 19106

Terry Corporation
Niantic Plant
Post Office Box 350
New London, CT 06320

Tidewater Construction Corporation
Post Office Box 57
Norfolk, VA 23501

Tomlinson Refrigeration & Supply Co
324 Broadway
Elizabeth, NJ 07206

NAVAL ARCHITECT MEMBERS

Gibbs & Cox, Inc.
119 West 31st Street
New York, NY 10001

J. J. Henry Company, Inc.
Forty Exchange Place
New York, NY 10005

John J. McMullen Associates, Inc.
One World Trade Center
New York, NY 10048

M. Rosenblatt & Son, Inc.
350 Broadway
New York, NY 10013

ASSOCIATION MEMBERS

The American Waterways Operators, Inc.
1600 Wilson Boulevard
Arlington, VA 22209

New York and New Jersey Dry Dock
Association
330 Madison Avenue
New York, NY 10017

South Tidewater Association of
Ship Repairers, Inc
Post Office Box 5637
Chesapeake, VA 23324

Western Shipbuilding Association
Post Office Box 3976
San Francisco, CA 94119

Appendix B

PRESIDENT'S LETTER 1985 ANNUAL REPORT

AN ACCOUNTING

When the Administration assumed office in 1981, the shipbuilding industry understood that it would be challenged to meet the performance and cost objectives of an expanded naval construction program. Further, the shipbuilding industry knew that performing the backlog of commercial and Navy work, in hand in 1981, would demonstrate that the industry's ongoing investment in facilities and new production methods and processes provided lower shipbuilding costs and more rapid ship deliveries. The industry was poised to build badly needed new naval vessels and to respond to requirements to build commercial vessels.

That the Administration placed highest shipbuilding priority on naval combatant vessels in its 1981 and 1982 budgets was understood and strongly supported by the industry. The industry did not agree, however, that the series of decisions which resulted in the near abandonment of commercial domestic shipbuilding were based on sound analyses of the requirements of national security. In our view, it is a responsibility of industry to highlight errors or misjudgments in national policy development when they occur.

As is indicated in the MESSAGE FROM THE CHAIRMAN, we believe that our industry has acted responsibly and effectively to the demands of a changing business environment and that the Administration has made good progress in enhancing our naval war fighting capability at costs which are fiscally sound.

Today, however, the status of the overall maritime capability of the nation is much less sound than that of the Navy. During the Presidential campaign in 1980, then candidate Ronald Reagan issued a Statement entitled A Program For The Development Of An Effective Maritime Strategy.

The President's Statement included the following definitive program.

... "We must develop and undertake a maritime policy that will (1) demonstrate our understanding of the importance of the seas to America's future; (2) reestablish the U.S. flag commercial fleet as an effective economic instrument capable of supporting U.S. interests abroad; and (3) demonstrate America's control of the seas in the face of any challenges.

"A specific naval-maritime program must be developed that will:

"1. Provide a unified direction for all government programs affecting maritime interests of the United States. We must insure that there is active cooperation between the Navy and the Merchant Marine and the government departments responsible for each. We must see that long-range building programs for naval and merchant ships are established and carried out without falling victim to petty bureaucratic jealousy. This is the role of the President, and I shall see that our maritime policy is coordinated to insure that it achieves the objectives we set for it.

"2. Insure that our vital shipbuilding mobilization base is preserved. It is essential that sufficient naval and commercial shipbuilding be undertaken to maintain the irreplaceable shipbuilding mobilization base. Without this nucleus of trained workers and established production facilities, we can never hope to meet any future challenge to our security.

"3. Improve utilization of our military resources by increasing commercial participation in support functions. The Navy today is facing a critical shortage of trained personnel. With the commercial industry assuming increased responsibility for many auxiliary functions, substantial cost savings can be achieved and a large reserve of manpower can be released to provide crews for a growing naval fleet. This is an example of the means by which we can increase defense mobilization without adding burden to the taxpayer.

"4. Recognize the challenges created by cargo policies of other nations. The United States has traditionally espoused free trade. However, the international shipping trade is laced with a network of foreign governmental preferences and priorities designed to strengthen foreign fleets, often at the expense of U.S. maritime interests. We must be prepared to respond constructively for our own interests to the restrictive shipping policies of other nations. A major goal of the United States must be to insure that American-flag ships carry an equitable portion of our trade consistent with the legitimate aspirations and policies of our trading partners.

"5. Restore the cost competitiveness of the U.S.-flag operators in the international marketplace. It has been American policy since 1936 for the additional costs of building and operating U.S.-flag ships to be borne by a system of subsidies to help insure the competitiveness of American importers and exporters. But our parity system failed in the mid-1970's because most foreign governments moved to protect their own vital maritime interests after the shipping collapse of the mid-70's. We must now take corrective action to make certain our merchant fleet and our shipbuilding industry survive and grow.

"6. Revitalize our domestic water transportation system. The inland water transportation system provides an economic and energy efficient method of moving goods and commodities of the nation between all parts of our country. It also provides a vital link in our international trading effort by tying the ports of the four seacoasts, which includes our Great Lakes, to the producing heartland of the Nation. Again we are paying a high price for the absence of any coherent national policy.

"7. Reduce the severe regulatory environment that inhibits American competitiveness. As foreign competition on the maritime scene has increased, so have the operational and regulatory restrictions on U.S. shipping and shipbuilding. Many of these restrictions increase costs and, in some cases, simply prevent our ships from competing with foreign ships. There is rarely, if ever, any commensurate benefit from these restrictions. Accordingly, we will carefully and rapidly review the effect of these restrictions and sponsor appropriate actions.

"In carrying out these expansive programs, a coordinated effort will be undertaken to create new jobs for American seamen, shipyard workers, and the thousands of workers in related industries. These maritime industries which are vital to our national well being, in the past have had an outstanding record of providing not only employment but the training to enable minorities and the disadvantaged to obtain continued advancement."

* * * * * *

"This seven-point program will be carefully developed and it will be carried out. We cannot expect others - either allies or adversaries - to respect our interests if we show no respect or concern for them ourselves. The failure to develop and carry out an effective naval and maritime program will deny the use of the seas to the United States and, eventually to the Free World."

Is the seven point program in place and functioning? To deny that nothing had been done would be incorrect. A major naval shipbuilding program has been undertaken, as was indicated, and civilian manning of naval vessels has increased. But what of the promised enhancement of the merchant fleet and the shipbuilding industry? Has sufficient progress been made? It has not in the view of the Congress.

As indicated in the MESSAGE FROM THE CHAIRMAN, Congress enacted on October 19, 1984 in Public Law 98-525, the Department of Defense Authorization Act, 1985, legislation which created a Commission on Merchant Marine and Defense to study the problems of the maritime industry. The defined tasks of the Commission are as follow:

> "The Commission shall study problems relating to transportation of cargo and personnel for national defense purposes in time of war or national emergency, the capability of the United States merchant marine to meet the need for such transportation, and the adequacy of the shipbuilding mobilization base of the United States to meet the needs of naval and merchant ship construction in time of war or national emergency. Based on the results of the study, the Commission shall make such specific recommendations, including recommendations for legislative actions, action by the executive branch, and action by the private sector, as the Commission considers appropriate to foster and maintain a United States merchant marine capable of meeting national security requirements. The recommendations of the Commission shall be provided in the reports of the Commission due on September 30, 1985, and September 30, 1986. . . ."

Following enactment of the legislation, the Office of Management and Budget held that no Commission could be created without specific funding. On August 15, 1985 the Congress provided funding for the Commission as a part of the supplemental appropriations for Fiscal Year 1985. Yet, five months later the Administration has failed to name Commissioners and create the Commission.

Should it therefore be concluded that the Administration believes that it has fulfilled either the mandate of the Congress in defining the tasks to be performed by the Commission or that the the seven-point program defined by the President in 1980 has been put in place?

As we have previously stated, the program of the Administration has been to enact the Shipping Act of 1984 as the centerpiece of maritime legislation and to continue to seek enactment of foreign building privileges for ship operators with operating-differential-subsidy contracts, the elimination of Ad Valorem duties levied on foreign repair of U.S.-flag vessels and the immediate eligibility of foreign-built, U.S.-flag vessels to carry preference cargos. All legislation designed to provide support for the shipbuilding industry has been consistently opposed including "Build and Charter". Further, the implementation of the construction-differential-subsidy payback, proposed tax legislation and actions by the Department of Agriculture to deny the applicability of certain cargo preference laws to agricultural products together show that there is no centralized review of maritime policy which requires that policy development be measured as to its effect on national security.

Recently, maritime industry experts compiled data relating to the current status of the industry and attempted to look forward to 1990. This was done for the U.S. liner fleet, both international and domestic trading, the U.S.-flag tanker fleet and the Effective U.S. Control fleet (EUSC). In each case and particularly vessels classed as militarily useful, the fleet has contracted sharply in numbers of vessels in the period from 1980 to 1985. For example, the total number of liner vessels was reduced from 319 in 1980 to 209 in 1985. Comparable decline has occurred in the U.S.-flag militarily useful tanker vessels, where useful vessels now include those less than 100,000 DWT. Further, more than one-half of these vessels are engaged in the carriage of crude oil (a transport that must be sustained in a national emergency) and a substantial number of the vessels over 50,000 DWT are not suitable for transport of clean products due to lack of cargo tank coatings even if they can be replaced in the service by substitute foreign-flag vessels.

It has always been recognized that the primary value provided by the EUSC fleet to the nation in a national emergency was to provide shipping support for the general economy. Again, sharp declines have occurred in this fleet both in militarily useful vessels and the fleet overall during the period since 1980.

Looking forward to 1990, these shipping experts agreed that the most likely change to the fleets would be reduction in size, certainly as measured by numbers of vessels. The real issue which lies before the nation is how severe the contraction of the operating fleets will be in this period. Further, it was agreed that because of the lack of a complete and coherent maritime policy and strategy, particularly in regard to a stable policy, it is impossible to predict the fleet composition with reasonable accuracy. For example, the proposed new tax law will undoubtedly cause severe changes to the future fleets. Thus, the problem of planning for military contingencies becomes extremely difficult and highly speculative.

Rarely in military planning is the expertise of industry sought. In this regard, of particular concern is the extremely long time period between data input and meaningful actions taken and/or needed analyses completed. In the rapidly changing shipping and shipbuilding industries which exist worldwide, conclusions based on "old data" even if it is "correct data" when coupled with the extremely long time required for either political or budgeting actions is a cause for concern. When basic data is incorrect, incorrectly interpreted or future projections are based on unsound or overly optimistic assumptions, the cause for concern is greatly heightened. Indeed, the national security can be placed in jeopardy. At a minimum, it would seem that "good planning" would seek as a minimum requirement the views of industry experts in the development of plans and analyses relating to maritime policy. This is particularly important because the industry is subject to extremely rapid change and high volatility.

We have pointed out on numerous occasions that the noncentralized development of maritime policy and lack of the requirement that that policy be tested as to its effect on the national security before implementation is a serious flaw in management. The military are required to rely on others beyond their control to provide assets vital to the performance of their responsibilities but lack the ability to cause meaningful review and testing of policy changes which may cause their missions to be impossible to accomplish.

The record speaks with clarity in evaluating the advancement promised for the maritime industry in 1980. Rather than building a growing and viable merchant marine and shipbuilding industry, contraction and continuing loss of capability and assets in these industries has been the chosen course.

That this course is correct, that the national risks it entails are acceptable or that the original plan set out as the guideline in 1980 was an incorrect perception of national requirements has never been articulated to the American people. On the basis of the record, the program espoused in 1980 for the achievement of maritime sufficiency has not been put in place.

What of the future?

In the forepiece, S. G. Gorshkov, Admiral of the Fleet of the Soviet Union was quoted:

"The flag of the Soviet Navy flies over the oceans of the world. Sooner or later the United States will have to understand it no longer has mastery of the seas".

In 1980 Candidate Ronald Reagan said:

"This seven-point program will be carefully developed and it will be carried out. We cannot expect others - either allies or adversaries - to respect our interests if we show no respect or concern for them ourselves. The failure to develop and carry out an effective naval and maritime program will deny the use of the seas to the United States and, eventually to the Free World".

Argumentum terninare.

Appendix C

STATUS OF THE SHIPBUILDING AND SHIP REPAIR INDUSTRY AS MEASURED AGAINST THE REQUIRED SHIPYARD MOBILIZATION BASE

AN ANALYSIS

PREPARED BY

SHIPBUILDERS COUNCIL OF AMERICA

FEBRUARY 27, 1986

I. DEFINITION OF THE SHIPYARD MOBILIZATION BASE

The Shipyard Mobilization Base is defined as that group of shipbuilding and ship repair facilities and operating companies capable of building and/or repairing vessels of specified size. Facilities must provide for the berthing and/or drydocking of vessels at least 400 feet in length with a minimum draft of 12 feet. Overall the facilities and companies must possess sufficient capacity and capability to perform tasks required by the nation in a national emergency or war.

The Shipyard Mobilization Base is thus a set of facilities with defined characteristics operated by a group of private companies together with government owned and operated shipyards.

II. DESCRIPTIONS OF THE SHIPYARD MOBILIZATION BASE

There are several sets of shipyards and repair facilities which have been compiled and have been used recently to describe a Shipyard Mobilization Base. They are detailed below:

A. SYMBA Shipyard Mobilization Base

The SYMBA Shipyard Mobilization Base (SYMBA-SMB) was developed as a part of a study to fix the requirement for national shipbuilding and ship repair capability to carry out mobilization and the demands of a major war using current Defense Guidance. The study, begun in the summer of 1982, was undertaken under the joint management of the Department of Defense and the Department of Transportation. The Shipyard Mobilization Base used is comprised of all the operating shipyards and facilities having the above defined physical characteristics. The original Shipyard Mobilization Base was developed on the basis of the facilities, companies and government shipyards which were operating in October 1982.

B. Active Shipyard Base

The Active Shipyard Base (ASB) is the group of private companies [compiled by the Maritime Administration (MARAD)] having the above defined physical characteristics and which are actively seeking new shipbuilding construction contracts.

C. Shipbuilders Council-Shipyard Mobilization Base

The Shipbuilders Council-Shipyard Mobilization Base (SCA-SMB) is that group of private companies having the above defined physical characteristics and which within the past six months performed Navy and/or government construction or repair plus those companies currently engaged in private new ship construction or major repair.

As should be expected, these sets of companies and facilities change as a result of the availability of work and with time. The SYMBA study, as well as most other studies of the capability of the nation's shipyards to perform tasks required under mobilization and war, includes the government owned and operated shipyards. There are eight naval shipyards and one shipyard operated by the Coast Guard. These shipyards are very substantial in size and employ a large number of workers (employment has averaged about 80,000 over the last four years). They perform work only for the government. The Navy shipyards do not engage in new construction work.

The number of private shipyards within each of the defined bases are listed below as a function of time after October 1982 when the SYMBA-SMB was first defined:

	SYMBA-SMB	ASB	SCA-SMB
December 1982	110	27	60
December 1983	101	25	63
December 1984	95	23	53
December 1985	88	23	57

Shipyard facilities are counted rather than shipyard companies. Thus, multiple shipyards operated by a single company are counted individually.

These data show that the actual number of shipbuilding and repair facilities included in the SYMBA-SMB and the ASB have declined rapidly in the last several years. The SCA-SMB base has been more stable as should be expected because the Navy has become the primary shipbuilding and ship repair customer of private industry.

In both the SYMBA-SMB and the ASB the number of shipyards is expected to continue to decline. At the present time, three companies included in the above data are operating under the protection of Chapter 11 of the federal bankruptcy laws while another major shipyard, the General Dynamics shipyard at Quincy, MA will close in the next few months. One shipyard included in the SYMBA-SMB is not operating and is not expected to resume operations. Beyond the next several month period, it is difficult to accurately predict the number of shipyards which will close.

III. PRIVATE SHIPYARD EMPLOYMENT

In addition to the count of shipyard facilities, the number of employees working in each of the above mobilization base shipyards is recorded. Under the SYMBA study and in the later follow-on NADES study, the number of production workers was counted while the other counts are of total employees. The data below show total employment within all private facilities counted as a function of time. The SYMBA production-worker count was converted to total employment by increasing production workers employed by 25 percent, a procedure which gives adequately accurate data overall. (The same procedure is used to obtain total employment data for the NADES study which is discussed in a later section.)

Employee data for the three Shipyard Mobilization Base sets and for the period since the end of 1981 follows:

	SYMBA-SMB	ASB	SCA-SMB
December 1981	not available	115,200	121,400
December 1982	140,600	105,300	113,600
December 1983	123,200	106,300	115,200
December 1984	119,900	107,000	114,200
December 1985	115,900	101,800	110,700

These data show that the employee count in the SYMBA-SMB has steadily declined while the number of employees in the other two bases shows a sharp decline from 1981 to 1982 and a second sharp decline from 1984 to 1985.

From the employment data summarized above, additional statistics can be determined and analyzed. Statistics which relate various groups of the larger shipyards to both employment and location as of December 1985 are shown below: (Note: only 18 of the 20 largest shipyards are in the ASB)

MAJOR SHIPYARDS	EMPLOYEES	LOCATED ON COAST			
NUMBER	NUMBER	EAST	GULF	WEST	LAKES
Largest 5 shipyards	77,100	59,900	11,800	5,400	0
Largest 10 shipyards	91,200	66,300	15,300	9,600	0
Largest 15 shipyards	97,600	68,800	18,300	9,600	900
Largest 20 shipyards	101,700	69,700	19,800	9,600	2,600

These data indicate both the concentration and the location of the largest part (approximately 85 percent) of the employees in the shipyard workforce. From these data and that previously given, the average number of employees in the shipyards remaining after elimination of the 20 largest shipyards for each of the Shipyard Mobilization Base sets can be determined. These data are shown in the following table:

	SYMBA-SMB	ASB	SCA-SMB
NUMBER OF SHIPYARDS SMALLER THAN THE 20 LARGEST SHIPYARDS	68	5	37
AVERAGE NUMBER OF EMPLOYEES IN THESE SHIPYARDS	209	241	243

These data indicate that beyond the 20 largest shipyards the remaining shipyards are small in size. Whether these small operations can invest in new equipment, higher productivity processes and gain the skills needed to use modern new technologies which must be a part of the nation's facilities inventory is a major unanswered question which must be considered by defense planners. The future composition of the Shipyard Mobilization Base, discussed in a later section, shows that the problem will be exacerbated in the future due to the forces of competition and the Navy's procurement strategies which are almost exclusively based on buying at the lowest cost without regard to the potential effect on the industrial base.

Beyond the problems presented by shipyard size and capability, other highly important information is shown by the employment numbers and trends. This information is developed by comparing actual and projected employment numbers in contrast with the number of employees which have been determined to be required to carry out mobilization during the critical 30 day period at the beginning of a conflict. There have been two such determinations made. The first was done in the SYMBA study while the second was done in the follow-on NADES study. In the NADES study the tasks of mobilization were modeled using a smaller shipyard count and a less demanding schedule and work load. The minimum required number of workers in private shipyards when mobilization begins as derived in the studies are shown below:

MINIMUM NUMBERS OF REQUIRED EMPLOYEES

SYMBA	140,000
NADES	133,000

Thus, present employment in all of the defined Shipyards Mobilization Bases is well below the required minimum. (Note: the SCA-SMB is essentially the shipyard set utilized in the NADES study)

Using the assumption of these studies, that total production worker employment is a correct measure of the ability of the mobilization base to perform, an issue which will be discussed in detail in a following section, projections of future employment must be made to achieve a forward measure of the likely adequacy of the Shipyard Mobilization Base. This has been done both by Navy/MARAD and by the Shipbuilders Council.

In the work done by Navy/MARAD, future employment is calculated by adding two employment numbers derived from projected employment demands. The first source is Navy ship repair and overhaul. Navy repair and overhaul employment for the private sector is the summation of data provided by the Navy's Superintendents of Shipbuilding based on their own judgements of future work to be required in the region they manage. Upon analysis and when compared with past levels of activity, the employment projections show significantly increased levels. Further, in comparison with the actual repair and overhaul planning matrix the numbers are quite high. The second source of employment demand is Navy new construction. In this case, employment is projected by the Naval Sea Systems Command as that required to perform naval construction assuming that the Navy five-year shipbuilding plan is fully funded. This assumption is specious since it assumes that the level of funding will increase in each of the next five years substantially above the level of naval shipbuilding funded in fiscal year 1986 or in the prior two years. Indeed, the projected work load used is judged to be substantially above the level which is likely to be requested by the Administration in future budget submissions.

Therefore, unless the Congress appropriates the increasing level of both shipbuilding and ship repair and overhaul funding upon which the projections are based, the Navy/MARAD manpower projection is not a valid measure of the capability of the Shipyard Mobilization Base to perform.

The projection of future total employment used by the Shipbuilders Council uses historic levels and trends of naval and commercial ship repair. Regarding future naval shipbuilding appropriations, the 1986 budget request of $11.4 billion was increased by a provision for inflation of approximately four percent per year. These determinations result in future employment levels shown below as compared with the minimum employment levels derived in the SYMBA and the NADES studies:

MINIMUM REQUIRED NUMBER OF EMPLOYEES IN THE PRIVATE SHIPYARDS

SYMBA	140,000
NADES	133,000

PROJECTED TOTAL EMPLOYMENT LEVELS FOR THE SCA-SMB

December 1987	90,000
December 1989	86,000

Since the SCA-SMB does not include the entire set of shipyard facilities and companies which are included in the SYMBA-SMB, it is necessary to project employment in the industry outside the SCA-SMB. This has been done for the period to 1989. It is first noted that the data given for employment in the various Shipyard Mobilization Base sets to the end of 1985 show that the employment difference between the SYMBA-SMB and the SCA-SMB has decreased from 27,000 at December 1982 to 5,200 at December 1985. The employment difference is projected to decrease to 4,000 at December 1987 and to 3,000 at December 1989.

Thus, the Shipbuilders Council projects that the future employment level in the SYMBA-SMB will be as follows:

MINIMUM REQUIRED NUMBER OF EMPLOYEES IN THE PRIVATE SHIPYARDS

SYMBA	140,000
NADES	133,000

PROJECTED TOTAL EMPLOYMENT LEVELS FOR THE SYMBA-SMB

December 1987	94,000
December 1989	89,000

It is obvious from these data that a very significant manpower shortfall exists which grows more extreme as the decade progresses.

IV. CRITIQUE OF THE SYMBA AND NADES STUDY ASSUMPTIONS

The SYMBA and NADES studies both make several assumptions which are believed to be highly optimistic and/or incorrect. Production workers are presumed to be generally transferable and interchangeable as to skills and geographic location. Under this assumption, there is no need in the analysis to differentiate between special skills needed or the geographic problem of the location of worker shortfalls as the required shipyard tasks are assigned within the presumed shipyard base. Thus, the fact that in the NADES study many more workers are projected to be at work on the Gulf Coast and on the West Coast than are presently employed or can be projected to be employed in the future is ignored. In addition, it is assumed, for example, that a welder can perform as a shipfitter, a mechanic or an electrician. This is an incorrect assumption. Highly critical skills will be required to carry out the required tasks during mobilization. There has been no meaningful study which measures the severity of the projected manpower shortfall in regard to specialized skill categories.

Further, it is presumed that shipyards engaged in naval new construction and repair will be diverted in order to complete mobilization tasks required to ready the commercial fleet and the reserve fleets for service and then return to the work of readying naval vessels for combat. This will undoubtably be required in many cases, given the requirement that we must rely heavily upon reserve fleet ships to carry out an initial deployment. However, there will undoubtably be some classes of naval vessels which will be in such demand that they must be immediately readied for service and the work force so engaged will not be released.

Moreover, there are many tasks being performed under modern shipbuilding techniques which do not require classic shipyard skills which are required to perform mobilization tasks. Modern shipbuilding has become an assembly line construction process which uses very specialized rather than generalized shipyard skills. For example, workers at the Electric Boat

Division of General Dynamics should not be counted as having general shipyard skills. They have very special skills used in the construction of new nuclear submarines. Similarily, production workers building or repairing nuclear submarines at Newport News Shipyard should not be assumed to be available to carry out extensive mobilization work. It is inconceivable that the highest priority, as we prepare for war, will not be to ready, on a crash basis, all available attack submarines. Further, it is highly likely that the number of such submarines present in these shipyards at any time will represent a significant fraction of the entire attack submarine fleet.

Workers at Newport News Shipyard engaged in the construction of aircraft carriers may be diverted from very long term new construction work. The most likely scenerio, however, is that these workers will be diverted to accelerate the preparation of aircraft carriers which can be put to sea in the early phase of the war. To accept as a given, that a 30 day stand down period will be allowed in preparing a new aircraft carrier or in repairing an aircraft carrier for return to sea is not regarded as an acceptable or a believable mobilization plan in view of the uniqueness of these ships and their strategic importance. For example, if an aircraft carrier can be made ready for sea in three weeks during the 30 day period of mobilization, is it conceivable that its return to service would be delayed until after the conflict is well underway?

Although, in neither the SYMBA and NADES studies were major mobilization workloads assumed to be carried out at Electric Boat and at Newport News Shipbuilding, the inclusion of the employees of the shipyards in the presumed pool of available labor is highly misleading. A more correct and meaningful count of shipyard workers to be utilized in the tasks of mobilization excludes those workers employed in the construction and repair of nuclear vessels. When this is done, quite different manpower data are developed. In fact, employment in non-nuclear shipbuilding has declined each year since 1981 in spite of the increased naval shipbuilding program and the impact of the required work on privately owned T-ships. (Under the T-ship program, 18 privately owned vessels have been built and/or converted for long term charter to the Navy. This work provided major support for the Shipyard Mobilization Base in the last few years outside of the Navy budget.)

Total employment of the SCA-SMB shipyards engaged in the construction and repair of nuclear vessels is 52,000 while employment in non-nuclear construction and repair is 58,000. The projected number of workers outside the SCA-SMB is 5,200 at present and is projected to be 3,000 in 1989. Thus, total employment engaged in non-nuclear new construction and repair was 63,200 at the end of 1985 and is projected to be 40,000 at the end of 1989.

The current employee shortfall based on the NADES demand is about 22,000 workers. By 1989 the comparable shortfall grows to be 44,000 employees. Thus, the current shortfall is 35 percent of the total available work force while the shortage increases to be 110 percent of the employees at work in 1989. These data reveal that the ability to execute mobilization is highly improbable.

V. SHIPYARDS WITHOUT FUTURE WORK

Another statistic, which is largely ignored by Navy analysts and planners, is that 13 shipyards in the Active Shipyard Base are constructing a single ship class (12 are constructing naval vessels). Some of these shipyards will receive follow-on contracts to sustain present production into the next decade. At least half of the yards, however, must find other work in the very near future. Study of the probable bidding opportunities for upcoming new naval and commercial construction and conversion contracts indicates that there will be very few opportunities available over the next several years. Most of the Navy five-year shipbuilding plan is devoted to nuclear powered vessels, high technology combatants and small numbers of large support vessels such as the LHD (Amphibious Ship), the AO (Oiler) and the AOE (Fast Combat Support Ship). Most of the shipyards in need of work will not be able to bid to build these classes of ships. Therefore, it must be expected that absent new bidding opportunities many of these yards will have no ongoing new construction or conversion work. Their prospects for survival are bleak.

In the future, available work will be more concentrated and will be performed inevitably in a smaller number of major shipyards. The consequence of the increased concentration will be a further loss of overall capability in the Shipyard Mobilization Base.

VI. THE CHANGING REPAIR MARKET AFFECTS THE MOBILIZATION BASE

A significant factor which will affect the Shipyard Mobilization Base is the lack of new construction opportunity coupled with the changing nature of the naval ship repair market. New construction yards without ongoing new construction will become high cost yards in competing for repair contracts. This results from the fact that facilities used for new construction work must be amortized against repair work which will not, in general, require such facilities. Under these conditions, the new construction shipyards will be at a major cost disadvantage as compared with shipyards which do not have new construction facilities and therefore have inherently lower overhead costs.

The other factor which affects the competitive environment is that the nature of the naval repair work made available to private industry is rapidly shifting toward contracts of shorter duration containing a lesser scope of work. This results because the Navy's repair and overhaul strategy is changing toward more Selected Restricted Availabilities and Phased Maintenance Contracts and away from major overhaul performed by private industry. The more intensive and demanding major overhauls are being reserved for the naval shipyards to support their present level of activity. The jobs being contracted to private industry are, on the average, smaller in dollar value and require less facilities and engineering and shipbuilding skills. Therefore, the larger more capable shipyards with either major repair or new construction capability are at a bidding disadvantage in comparison with the smaller ship repairers who need maintain little or no fixed facility or engineering capabilities. The problem is compounded by the requirements for small business set asides.

VII. FUTURE SHIPYARD MOBILIZATION BASE

It is concluded that the shipbuilding and ship repair industry will continue to be concentrated in two major sectors;

(1) Large sophisticated shipyards with facilities dedicated to constructing and repairing major naval vessels, and

(2) Small specialized ship repair companies with the very minimum of facilities and skills needed to perform current private naval ship repair.

Further, it is clear that the number of employees in the industry will be significantly below the number of employees which has been stated by government planners as being required to be at work when mobilization begins. The response of Navy/MARAD to the issue of the employment shortfall is that there will always be a large pool of labor available for immediate hire by the shipyards and that the pool is certain to contain workers with all required skills. When this assumption is coupled with the stated plan that all workers during any mobilization will work at least a 72 hour week, the conclusion is reached that mobilization can be performed. Senior executives within the shipbuilding and ship repair industry do not agree with the assumptions or the soundness of the plan. It is judged to be an inherently high risk strategy which has not been examined in detail or tested.

To presume that such assumptions and work requirements must underlie the plan whereby the Shipyard Mobilization Base is expected to perform the many and demanding tasks required for mobilization and a major war is to accept the high likelihood of failure. The capability required by shipyards cannot be created in a time of crisis nor can mothballed shipyards be reactivated in time to provide the industrial capacity needed by the nation to defend itself.

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